Exhibit A
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MATERIAL UNITED STATES TAX CONSIDERATIONS FOR NON-UNITED STATES HOLDERS OF COMMON STOCK

The following is a general discussion of material U.S. federal income and estate tax considerations with respect to the acquisition, ownership and disposition of shares of our common stock applicable to non-U.S. holders. In general, a "non-U.S. holder" is any holder other than:

- a citizen or resident of the United States;
- a corporation created or organized in or under the laws of the United States or any political subdivision thereof;
- an estate, the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (b) it has a valid election in effect under applicable Treasury regulations to be treated as a United States person.

Generally, an individual may be treated as a resident of the United States in any calendar year for U.S. federal income tax purposes by, among other ways, being present in the United States for at least 31 days in that calendar year and for an aggregate of at least 183 days during a three-year period ending in the current calendar year. For purposes of this calculation, such individual would count all of the days in which he or she was present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year. Residents are taxed for U.S. federal income tax purposes as if they were citizens of the United States.

This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended, final, temporary or proposed Treasury regulations promulgated thereunder, judicial opinions, published positions of the Internal Revenue Service and all other applicable authorities, all of which are subject to change, possibly with retroactive effect. We assume in this discussion that a non-U.S. holder holds shares of our common stock as a capital asset, generally property held for investment.

This discussion does not address all aspects of U.S. federal income and estate taxation that may be important to a particular non-U.S. holder in light of that non-U.S. holder's individual circumstances, nor does it address any aspects of U.S. state, local or non-U.S. taxes. This discussion also does not consider any specific facts or circumstances that may apply to a non-U.S. holder subject to special treatment under the U.S. federal income tax laws, including without limitation:

- banks, insurance companies or other financial institutions;
- partnerships;
- tax-exempt organizations;
- tax-qualified retirement plans;
- dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- certain U.S. expatriates; and
- persons that will hold common stock as a position in a hedging transaction, "straddle" or "conversion transaction" for tax purposes.

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Accordingly, we urge prospective investors to consult with their own tax advisors regarding the U.S. federal, state, local and non-U.S. income and other tax considerations of acquiring, holding and disposing of shares of our common stock.

If a partnership holds shares of our common stock, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Any partner in a partnership holding shares of our common stock should consult its own tax advisors.

Dividends

In general, dividends we pay, if any, to a non-U.S. holder will be subject to U.S. withholding tax at a rate of 30% of the gross amount. The withholding tax might not apply or might apply at a reduced rate under the terms of an applicable income tax treaty between the United States and the non-U.S. holder's country of residence. A non-U.S. holder must demonstrate its entitlement to treaty benefits by certifying, among other things, its nonresident status. A non-U.S. holder generally can meet this certification requirement by providing an Internal Revenue Service Form W-8BEN or appropriate substitute form to us or our paying agent. Also, special rules apply if the dividends are effectively connected with a trade or business carried on by the non-U.S. holder within the United States and, if a treaty applies, are attributable to a permanent establishment of the non-U.S. holder within the United States. Dividends effectively connected with this U.S. trade or business, and, if a treaty applies, attributable to such a permanent establishment of a non-U.S. holder, generally will not be subject to U.S. withholding tax if the non-U.S. holder files certain forms, including Internal Revenue Service Form W-8ECI or any successor form, with the payor of the dividend, and generally will be subject to U.S. federal income tax on a net income basis, in the same manner as if the non-U.S. holder were a resident of the United States. A non-U.S. holder that is a corporation may be subject to an additional "branch profits tax" at a rate of 30%, or a reduced rate as may be specified by an applicable income tax treaty, on the repatriation from the United States of its "effectively connected earnings and profits," subject to certain adjustments. A non-U.S. holder of shares of our common stock eligible for a reduced rate of U.S. withholding tax pursuant to an income tax treaty may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the Internal Revenue Service.

Gain on Sale or Other Disposition of Common Stock

In general, a non-U.S. holder will not be subject to U.S. federal income tax on any gain realized upon the sale or other disposition of the holder's shares of our common stock unless:

- the gain is effectively connected with a trade or business carried on by the non-U.S. holder within the United States and, if required by an applicable income tax treaty as a condition to subjecting a non-U.S. holder to United States income tax on a net basis, the gain is attributable to a permanent establishment of the non-U.S. holder maintained in the United States, in which case a non-U.S. holder will be subject to U.S. federal income tax on any gain realized upon the sale or other disposition on a net income basis, in the same manner as if the non-U.S. holder were a resident of the United States. Furthermore, the branch profits tax discussed above may also apply if the non-U.S. holder is a corporation;

- the non-U.S. holder is an individual and is present in the United States for 183 days or more in the taxable year of disposition and certain other tests are met, in which case a non-U.S. holder will be subject to a flat 30% tax on any gain realized upon the sale or other disposition, which tax may be offset by U.S. source capital losses even though the individual is not considered a resident of the United States;

- the non-U.S. holder is subject to tax pursuant to the provisions of the Internal Revenue Code regarding the taxation of U.S. expatriates; or

- we are or have been a U.S. real property holding corporation, or a USRPHC, for U.S. federal income tax purposes at any time within the shorter of the five-year period preceding the disposition and the non-U.S. holder's holding period. We do not believe that we are or have been a USRPHC, and we do not anticipate becoming a USRPHC. If we have been in the past or were to become a USRPHC at any

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time during this period, generally gains realized upon a disposition of shares of our common stock by a non-U.S. holder that did not directly or indirectly own more than 5% of our common stock during this period would not be subject to U.S. federal income tax, provided that our common stock is "regularly traded on an established securities market" (within the meaning of Section 897(c)(3) of the Internal Revenue Code). Our common stock will be treated as regularly traded on an established securities market during any period in which it is listed on a registered national securities exchange or any over-the-counter market, including the NASDAQ Global Market.

U.S. Federal Estate Tax

Shares of our common stock that are owned or treated as owned by an individual who is not a citizen or resident, as defined for U.S. federal estate tax purposes, of the United States at the time of death will be includible in the individual's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise, and therefore may be subject to U.S. federal estate tax.

Backup Withholding, Information Reporting and Other Reporting Requirements

Generally, we must report annually to the Internal Revenue Service and to each non-U.S. holder the amount of dividends paid to, and the tax withheld with respect to, each non-U.S. holder. These reporting requirements apply regardless of whether withholding was reduced or eliminated by an applicable tax treaty. Copies of this information also may be made available under the provisions of a specific treaty or agreement with the tax authorities in the country in which the non-U.S. holder resides or is established.

U.S. backup withholding tax is imposed—at a current rate of 28%—on certain payments to persons that fail to furnish the information required under the U.S. information reporting requirements. A non-U.S. holder of shares of our common stock will be subject to this backup withholding tax on dividends we pay unless the holder certifies, under penalties of perjury, among other things, its status as a non-U.S. holder, and we or our paying agent do not have actual knowledge or reason to know the holder is a U.S. person, or otherwise establishes an exemption.

Under the Treasury regulations, the payment of proceeds from the disposition of shares of our common stock by a non-U.S. holder made to or through a U.S. office of a broker generally will be subject to information reporting and backup withholding unless the beneficial owner certifies, under penalties of perjury, among other things, its status as a non-U.S. holder, and we or our paying agent do not have actual knowledge or reason to know the holder is a U.S. person, or otherwise establishes an exemption. The payment of proceeds from the disposition of shares of our common stock by a non-U.S. holder made to or through a non-U.S. office of a broker generally will not be subject to backup withholding and information reporting, except as noted below. In the case of proceeds from a disposition of shares of our common stock by a non-U.S. holder made to or through a non-U.S. office of a broker that is:

- a U.S. person;
- a "controlled foreign corporation" for U.S. federal income tax purposes;
- a foreign person 50% or more of whose gross income from certain periods is effectively connected with a U.S. trade or business; or
- a foreign partnership if at any time during its tax year (a) one or more of its partners are U.S. persons who, in the aggregate, hold more than 50% of the income or capital interests of the partnership or (b) the foreign partnership is engaged in a U.S. trade or business;

information reporting, but not backup withholding, will apply unless the broker has documentary evidence in its files that the owner is a non-U.S. holder and certain other conditions are satisfied, or the beneficial owner otherwise establishes an exemption, and the broker has no actual knowledge or reason to know to the contrary.

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Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a non-U.S. holder can be refunded or credited against the non-U.S. holder's U.S. federal income tax liability, if any, provided that the required information is furnished to the Internal Revenue Service in a timely manner.

THE FOREGOING DISCUSSION OF CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS IS FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE. ACCORDINGLY, EACH PROSPECTIVE HOLDER OF SHARES OF OUR COMMON STOCK SHOULD CONSULT HIS, HER OR ITS OWN TAX ADVISER WITH RESPECT TO THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF OUR COMMON STOCK.

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UNDERWRITERS

Under the terms and subject to the conditions contained in an underwriting agreement dated the date of this prospectus, the underwriters named below, for whom Morgan Stanley & Co. Incorporated, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Jefferies & Company, Inc., Cowen and Company, LLC and ThinkEquity Partners LLC are acting as representatives, have severally agreed to purchase, and we and the selling stockholders have agreed to sell to them, severally, the number of shares indicated below:

Name	Number of Shares
Morgan Stanley & Co. Incorporated	4,708,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	2,782,000
Jefferies & Company, Inc.	1,337,500
Cowen and Company, LLC	1,070,000
ThinkEquity Partners LLC	802,500
Total	10,700,000

The underwriters and the representatives are collectively referred to as the "underwriters" and the "representatives," respectively. The underwriters are offering the shares of common stock subject to their acceptance of the shares from us and the selling stockholders and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the shares of common stock offered by this prospectus are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the shares of common stock offered by this prospectus if any such shares are taken. However, the underwriters are not required to take or pay for the shares covered by the underwriters' over-allotment option described below.

The underwriters initially propose to offer part of the shares of common stock directly to the public at the initial public offering price listed on the cover page of this prospectus and part to certain dealers at a price that represents a concession not in excess of $0.55 a share under the initial public offering price. No underwriter may allow, and no dealer may re-allow, a concession to other underwriters or to any dealer. After the initial offering of the shares of common stock, the offering price and other selling terms may from time to time be varied by the representatives.

We and the selling stockholders have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to an aggregate of 1,605,000 additional shares of our common stock at the initial public offering price listed on the cover page of this prospectus, less underwriting discounts and commissions. The underwriters may exercise this option solely for the purpose of covering over-allotments, if any, made in connection with the offering of the shares of common stock offered by this prospectus. To the extent the option is exercised, each underwriter will become obligated, subject to certain conditions, to purchase about the same percentage of the additional shares of common stock as the number listed next to the underwriter's name in the preceding table bears to the total number of shares of common stock listed next to the names of all underwriters in the preceding table. If the underwriters' option is exercised in full, the total price to the public would be $159,965,000, the total underwriters' discounts and commissions paid by us and the selling stockholders would be $6,825,000 and $4,372,550, respectively, and the total proceeds to us and the selling stockholders would be $90,675,000 and $58,092,450, respectively.

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The following table shows the per share and total underwriting discounts and commissions that we and the selling stockholders are to pay to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares of our common stock from the selling stockholders.

	Per Share		Total	
	No Exercise	Full Exercise	No Exercise	Full Exercise
Underwriting discounts and commissions paid by us	$0.91	$0.91	$6,825,000	$ 6,825,000
Underwriting discounts and commissions paid by the selling stockholders			$2,912,000	$ 4,372,550
	$0.91	$0.91		
Total	$ 0.91	$ 0.91	$ 9,737,000	$ 11,197,550

The expenses of this offering payable by us, not including underwriting discounts and commissions, are estimated to be approximately $2.4 million, which includes legal, accounting and printing costs and various other fees associated with the registration and listing of our common stock.

The underwriters have informed us and the selling stockholders that they do not intend sales to discretionary accounts to exceed five percent of the total number of shares of common stock offered by them.

Our common stock has been approved for listing on the NASDAQ Global Market under the symbol "BBND."

We, the selling stockholders, all of our directors and officers and holders of substantially all our outstanding stock and stock options have agreed that, subject to certain exceptions, without the prior written consent of Morgan Stanley & Co. Incorporated and Merrill Lynch, Pierce, Fenner & Smith Incorporated on behalf of the underwriters, we and they will not, during the period ending 180 days after the date of this prospectus:

- offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any shares of common stock or any securities convertible into or exercisable or exchangeable for common stock; or

- enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the common stock,

whether any such transaction described above is to be settled by delivery of common stock or such other securities, in cash or otherwise. In addition, we and each such person agrees that, without the prior written consent of Morgan Stanley & Co. Incorporated and Merrill Lynch, Pierce, Fenner & Smith Incorporated on behalf of the underwriters, it will not, during the period ending 180 days after the date of this prospectus, make any demand for, or exercise any right with respect to, the registration of any shares of common stock or any security convertible into or exercisable or exchangeable for common stock.

Subject to certain exceptions, the restrictions described in the immediately preceding paragraph do not apply to:

- the sale of shares to the underwriters in this offering;

- the issuance by us of shares of common stock upon the exercise of an option or warrant or the conversion of a security outstanding on the date of this prospectus of which the underwriters have been advised in writing;

- transactions relating to shares of common stock or other securities acquired in open market transactions after the completion of the offering of the shares;

- distributions of shares of common stock or any security convertible into common stock to limited partners or equity holders of the stockholder; or

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- transfers of shares of common stock or any security convertible into common stock as a bona fide gift;

provided that in the case of each of the last two types of transactions, each donee, distributee, transferee and recipient agrees to be subject to the restrictions described in the preceding paragraph and in the case of each of the last three types of transactions, no filing under Section 16(a) of the Securities Exchange Act of 1934, as amended, is required or voluntarily made in connection with these transactions during this 180-day restricted period.

The 180 day restricted period described in the preceding paragraphs will be extended if:

- during the last 17 days of the 180-day restricted period, we issue an earnings release or material news or a material event relating to our company occurs; or

- prior to the expiration of the 180-day restricted period, we announce that we will release earnings results during the 16 day period beginning on the last day of the 180-day period;

in which case the restrictions described in the preceding paragraphs will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

In order to facilitate this offering of the common stock, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the common stock. Specifically, the underwriters may sell more shares than they are obligated to purchase under the underwriting agreement, creating a short position. A short sale is covered if the short position is no greater than the number of shares available for purchase by the underwriters under the over allotment option. The underwriters can close out a covered short sale by exercising the over-allotment option or purchasing shares in the open market. In determining the source of shares to close out a covered short sale, the underwriters will consider, among other things, the open market price of shares compared to the price available under the over-allotment option. The underwriters may also sell shares in excess of the over-allotment option, creating a naked short position. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in this offering. In addition, to stabilize the price of the common stock, the underwriters may bid for, and purchase, shares of common stock in the open market. Finally, the underwriting syndicate may reclaim selling concessions allowed to an underwriter or a dealer for distributing the common stock in this offering, if the syndicate repurchases previously distributed common stock to cover syndicate short positions or to stabilize the price of the common stock. These activities may raise or maintain the market price of the common stock above independent market levels or prevent or retard a decline in the market price of the common stock. The underwriters are not required to engage in these activities and may end any of these activities at any time.

We and the selling stockholders have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in connection with such liabilities.

A prospectus in electronic format may be made available on the websites maintained by one or more underwriters. Other than the prospectus in electronic format, the information on the underwriters' websites is not part of this prospectus. The underwriters may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by Morgan Stanley & Co. Incorporated and Merrill Lynch, Pierce, Fenner & Smith Incorporated to underwriters that may make Internet distributions on the same basis as other allocations.

Directed Share Program

At our request, Morgan Stanley & Co. Incorporated and Merrill Lynch, Pierce, Fenner & Smith Incorporated have reserved for sale, at the initial public offering price, up to 356,666 shares, or 3% of the shares offered in this prospectus, for our directors, officers, employees, business associates and other related persons.

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The number of shares of common stock available for sale to the general public will be reduced to the extent that such persons purchase the reserved shares. Any reserved shares which are not so purchased will be offered by the underwriters to the general public on the same basis as the other shares offered in this prospectus. Employees, and immediate family members of directors, officers and employees, participating in the directed share program will be required to agree not to sell, transfer, assign, pledge or hypothecate shares acquired through the directed share program for a period of 180 days after purchasing the shares. This lock-up period will be extended if, during the last 17 days of the 180-day restricted period we issue an earnings release or material news or a material event relating to us occurs, or prior to the expiration of the 180-day restricted period we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day period, in which case the restrictions described in the preceding sentence will continue to apply until the expiration of the 18-day period beginning on the issuance of the release or the occurrence of the material news or material event.

Pricing of the Offering

Prior to this offering, there has been no public market for our common stock. The initial public offering price was determined by negotiations among us and the representatives of the underwriters. Among the factors considered in determining the initial public offering price were our future prospects and those of our industry in general, our sales, earnings and certain other financial and operating information in recent periods, and the price earnings ratios, price sales ratios and market prices of securities and certain financial and operating information of companies engaged in activities similar to ours. An active trading market for the shares may not develop. It is also possible that after the offering the shares will not trade in the public market at or above the initial public offering price.

Other Relationships

Some of the underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us. They have received customary fees and commissions for these transactions.

LEGAL MATTERS

The validity of the shares of common stock offered hereby will be passed upon for us by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Palo Alto, California. Latham & Watkins LLP, Menlo Park, California, is acting as counsel to the underwriters.

EXPERTS

The consolidated financial statements of BigBand Networks, Inc. at December 31, 2005, and 2006 and for each of the three years in the period ended December 31, 2006, appearing in this prospectus and registration statement have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The financial statements of ADC Broadband Access Systems, Inc. for the period from November 1, 2003 to June 29, 2004, appearing in this prospectus and registration statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

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WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of common stock offered hereby. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits and schedules filed therewith. For further information about us and the common stock offered hereby, we refer you to the registration statement and the exhibits and schedules filed thereto. Statements contained in this prospectus regarding the contents of any contract or any other document that is filed as an exhibit to the registration statement are not necessarily complete, and each such statement is qualified in all respects by reference to the full text of such contract or other document filed as an exhibit to the registration statement. Upon completion of this offering, we will be required to file periodic reports, proxy statements, and other information with the SEC pursuant to the Securities Exchange Act of 1934. You may read and copy this information at the Public Reference Room of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information on the operation of the public reference rooms by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website that contains reports, proxy statements and other information about issuers, like us, that file electronically with the SEC. The address of that site is *www.sec.gov*.

Upon completion of this offering, we will be subject to the information reporting requirements of the Securities Exchange Act of 1934 and we intend to file reports, proxy statements and other information with the SEC.

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ADC Broadband Access Systems, Inc.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of
BigBand Networks, Inc.

We have audited the accompanying consolidated balance sheets of BigBand Networks, Inc. as of December 31, 2005 and 2006, and the related consolidated statements of operations, redeemable convertible preferred stock and stockholders' deficit, and cash flows for each of the three years in the period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of BigBand Networks, Inc. at December 31, 2005 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, BigBand Networks, Inc., adopted FASB Staff Position 150-5, *"Issuer's Accounting Under FASB Statement No. 150 for Freestanding Warrants and Other Similar Instruments on Shares That Are Redeemable,"* during the year ended December 31, 2005 and changed its method of accounting for stock-based compensation in accordance with guidance provided in FASB Statement No. 123(R), *"Share-Based Payments,"* during the year ended December 31, 2006.

/s/ *Ernst & Young LLP*

Palo Alto, California
February 16, 2007

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BIGBAND NETWORKS, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	As of December 31, 2005	As of December 31, 2006	Pro Forma Stockholders' Equity as of Dec. 31, 2006 (Note 2) (unaudited)
ASSETS			
Current assets:			
Cash and cash equivalents	$ 17,366	$ 38,570	
Marketable securities	6,921	26,904	
Trade receivables, net of allowance for doubtful accounts of $23 and $152 at December 31, 2005 and 2006, respectively	14,708	33,988	
Trade receivable from ADC Telecommunications, Inc. a stockholder	1,106	—	
Inventories	21,524	7,153	
Prepaid expenses and other current assets	1,970	2,511	
Total current assets	63,595	109,126	
Property and equipment, net	7,531	12,788	
Intangible assets, net	1,878	1,306	
Goodwill	1,656	1,656	
Restricted cash	332	245	
Other non-current assets	1,824	3,929	
Total assets	$ 76,816	$ 129,050	
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)			
Current liabilities:			
Current portion of obligations under capital leases	$ 206	$ 24	
Current portion of line of credit and loans payable	4,212	5,913	
Preferred stock warrant liabilities	1,642	3,152	
Accrued compensation and related benefits	4,814	7,354	
Accounts payable	8,016	15,097	
Accounts payable to ADC Telecommunications, Inc., a stockholder	1,543	12	
Current portion of deferred revenues, net	28,232	39,553	
Accrued warranty	3,913	3,241	
Other current liabilities	5,205	9,724	
Total current liabilities	57,783	84,070	
Deferred revenues, net, less current portion	562	11,049	
Obligations under capital leases, less current portion	—	32	
Loans payable, less current portion	—	8,567	
Loan payable to ADC Telecommunications, Inc., a stockholder	7,000	—	
Accrued warranty, less current portion	—	895	
Accrued long-term severance pay fund	1,983	2,744	
Commitments and contingencies (Note 6)			
Redeemable convertible preferred stock issuable in series, $0.01 par value; 128,266 authorized at December 31, 2005 and 2006; 29,439, issued and outstanding at December 31, 2005 and 2006; aggregate liquidation value of $117,668 at December 31, 2005 and 2006 and no shares outstanding pro forma (unaudited)	117,307	117,307	$ —
Stockholders' equity (deficit):			
Common stock, $0.001 par value, 335,000 shares authorized at December 31, 2005 and 2006			
Class A voting: 300,000 shares designated at December 31, 2005 and 2006; 7,533 and 8,241 shares issued and outstanding at December 31, 2005 and 2006 and 49,619 shares outstanding pro forma (unaudited)	8	8	50
Class B nonvoting: 35,000 shares designated at December 31, 2005 and 2006; 3,619 shares issued and outstanding at December 31, 2005 and 2006 and no shares outstanding pro forma (unaudited)	4	4	—
Additional paid-in capital	14,978	17,063	137,484
Deferred stock-based compensation	(2,621)	(1,405)	(1,405)
Accumulated other comprehensive income (loss)	(18)	9	9
Accumulated deficit	(120,170)	(111,293)	(111,293)
Total stockholders' equity (deficit)	(107,819)	(95,614)	$ 24,845
Total liabilities, redeemable convertible preferred stock and stockholders' equity (deficit)	$ 76,816	$ 129,050	

See accompanying notes.

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BIGBAND NETWORKS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Years ended December 31,		
	2004	2005	2006
Net revenues			
Products	$ 31,536	$ 85,966	$154,013
Services	3,936	12,013	22,611
Total net revenues	35,472	97,979	176,624
Cost of net revenues			
Products	21,300	55,933	74,152
Services	2,221	3,900	9,245
Total cost of net revenues	23,521	59,833	83,397
Gross profit	11,951	38,146	93,227
Operating expenses			
Research and development	21,582	30,701	37,194
Sales and marketing	15,891	22,729	29,523
General and administrative	5,782	6,984	13,176
Amortization of intangible assets	286	573	572
In-process research and development	966	—	—
Total operating expenses	44,507	60,987	80,465
Operating income (loss)	(32,556)	(22,841)	12,762
Interest income	134	628	1,526
Interest expense	(1,010)	(1,672)	(1,699)
Other expense, net	(81)	(652)	(1,187)
Net income (loss) before provision for income taxes and cumulative effect of change in accounting principle	(33,513)	(24,537)	11,402
Provision for income tax	250	325	2,525
Net income (loss) before cumulative effect of change in accounting principle	(33,763)	(24,862)	8,877
Cumulative effect of change in accounting principle	—	(633)	—
Net income (loss)	$(33,763)	$(25,495)	$ 8,877
Net income (loss) per common share:			
Basic	$ (4.20)	$ (2.36)	$ 0.78
Diluted	$ (4.20)	$ (2.36)	$ 0.16
Weighted average shares used in computing net income (loss) per common share:			
Basic	8,032	10,794	11,433
Diluted	8,032	10,794	57,053
Pro forma net income per common share: (unaudited)			
Basic			$ 0.18
Diluted			$ 0.16
Weighted average shares used in computing pro forma net income per common share: (unaudited)			
Basic			49,195
Diluted			57,053

See accompanying notes.

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BIGBAND NETWORKS, INC.

CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT
(In thousands)

	Redeemable Convertible Preferred Stock		Common Stock Class A		Common Stock Class B		Additional Paid-in Capital	Deferred Stock-Based Compensation	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Stockholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount					
Balance as of December 31, 2003	19,693	$ 75,060	6,003	$ 6	—	$ —	$ 1,529	$ (11)	$ —	$ (60,912)	$ (59,388)
Stock-based compensation	—	—	—	—	—	—	3,990	(3,990)	—	—	—
Amortization of deferred stock-based compensation	—	—	—	—	—	—	—	701	—	—	701
Proceeds from exercise of class A common stock options	—	—	136	—	—	—	104	—	—	—	104
Issuance of class A common stock options to consultants for acquisition services rendered	—	—	—	—	—	—	30	—	—	—	30
Issuance of warrants to purchase class B common stock in connection with financing	—	—	—	—	—	—	420	—	—	—	420
Proceeds from issuance of series E-1 preferred stock, net of issuance costs	5,738	25,050	—	—	—	—	—	—	—	—	—
Issuance of warrants to purchase series E-1 preferred stock in connection with financing	—	594	—	—	—	—	—	—	—	—	—
Proceeds from exercise of warrants to purchase class A common stock	—	—	750	1	—	—	1,889	—	—	—	1,890
Issuance of stock in conjunction with acquisition of ADC-BAS, net of issuance costs:											
Class B common stock	—	—	—	—	3,619	4	6,076	—	—	—	6,080
Series E-2 preferred stock	4,008	17,500	—	—	—	—	—	—	—	—	—
Net loss and comprehensive loss	—	—	—	—	—	—	—	—	—	(33,763)	(33,763)
Balance as of December 31, 2004	29,439	$118,204	6,889	$ 7	3,619	$ 4	$ 14,038	$ (3,300)	$ —	$ (94,675)	$ (83,926)

See accompanying notes.

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BIGBAND NETWORKS, INC.

CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT—(Continued)
(In thousands)

	Redeemable Convertible Preferred Stock		Common Stock								
			Class A		Class B				Accumulated Other		
	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Deferred Stock-Based Compensation	Comprehensive Income (Loss)	Accumulated Deficit	Stockholders' Deficit
Balance as of December 31, 2004	29,439	$118,204	6,889	$ 7	3,619	$ 4	$ 14,038	$ (3,300)	$ —	$ (94,675)	$ (83,926)
Stock-based compensation	—	—	—	—	—	—	424	(424)	—	—	—
Amortization of deferred stock-based compensation	—	—	—	—	—	—	—	1,103	—	—	1,103
Proceeds from exercise of class A common stock options	—	—	644	1	—	—	516	—	—	—	517
Reclassification of warrants to liabilities	—	(897)	—	—	—	—	—	—	—	—	—
Comprehensive loss:	—	—	—	—	—	—	—	—	—	—	—
Unrealized loss on marketable securities	—	—	—	—	—	—	—	—	(18)	—	(18)
Net loss	—	—	—	—	—	—	—	—	—	(25,495)	(25,495)
Total comprehensive loss											(25,513)
Balance as of December 31, 2005	29,439	117,307	7,533	8	3,619	4	14,978	(2,621)	(18)	(120,170)	(107,819)
Stock options issued to non-employees	—	—	—	—	—		26	—	—	—	26
Stock-based compensation	—	—	—	—	—	—	1,422	—	—	—	1,422
Amortization of deferred stock-based compensation, net of reversals for terminated employees	—	—	—	—	—	—	(114)	1,216	—	—	1,102
Proceeds from exercise of class A common stock options	—	—	708	—	—	—	751	—	—	—	751
Comprehensive income:											
Unrealized gain on marketable securities	—	—	—	—	—	—	—	—	27	—	27
Net income	—	—	—	—	—	—	—	—	—	8,877	8,877
Total comprehensive income											8,904
Balance as of December 31, 2006	29,439	$117,307	8,241	$ 8	3,619	$ 4	$ 17,063	$ (1,405)	$ 9	$ (111,293)	$ (95,614)

See accompanying notes.

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BIGBAND NETWORKS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Years ended December 31,		
	2004	2005	2006
Cash Flows from Operating activities			
Net income (loss)	$(33,763)	$(25,495)	$ 8,877
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:			
Depreciation of property and equipment	3,183	5,915	6,148
Amortization of intangible assets	286	573	572
Gain on sale of investment	—	—	(592)
In-process research and development	966	—	—
Amortization of debt issuance costs	250	517	379
Loss (gain) on disposal of property and equipment	(2)	133	78
Revaluation of warrant liabilities	—	744	1,510
Stock-based compensation to non-employees	—	—	26
Stock-based compensation to employees	—	—	1,422
Amortization of deferred stock-based compensation	701	1,103	1,102
Change in operating assets and liabilities:			
Decrease (increase) in trade receivables	(14,986)	6,103	(19,280)
Decrease (increase) in trade receivables—related party	—	(146)	1,106
Decrease (increase) in inventories	9,356	(7,661)	14,371
Decrease (increase) in prepaids and other current assets	297	(1,251)	(541)
Decrease (increase) in other noncurrent assets	(746)	318	(1,024)
Increase (decrease) in accounts payable	1,042	(1,491)	6,292
Increase (decrease) in accounts payable—related party	1,149	394	(1,531)
Increase in long-term severance pay fund	439	294	761
Increase in accrued and other liabilities	2,806	2,714	7,282
Increase in deferred revenues	7,538	18,678	21,808
Net cash provided by (used in) operating activities	(21,484)	1,442	48,766
Cash Flows from Investing activities			
Purchases of marketable securities	—	(15,399)	(46,925)
Proceeds from maturities or sale of marketable securities	—	8,460	26,969
Proceeds from sale of other investment	—	5,259	592
Purchase of property and equipment	(1,354)	(5,980)	(10,943)
Proceeds from disposal of property and equipment	2	—	—
Acquisition of ADC-BAS, net of cash assumed	(1,494)	—	—
Decrease (increase) in restricted cash	87	(42)	87
Net cash used in investing activities	(2,759)	(7,702)	(30,220)
Cash Flows from Financing activities			
Proceeds from loans	11,135	—	16,800
Principal payments on loans	(3,729)	(247)	(14,012)
Principal payments on capital lease obligations	(701)	(440)	(210)
Payments in preparation for an initial public offering of the Company's class A common stock	—	—	(671)
Proceeds from issuance of preferred stock, net of issuance costs	25,050	—	—
Proceeds from exercise of warrants to purchase class A common stock	1,890	—	—
Proceeds from exercise of class A common stock options	104	517	751
Net cash provided by (used in) financing activities	33,749	(170)	2,658
Net increase (decrease) in cash and cash equivalents	9,506	(6,430)	21,204
Cash and cash equivalents at beginning of year	14,290	23,796	17,366
Cash and cash equivalents at end of year	$ 23,796	$ 17,366	$ 38,570
Schedule of non-cash transactions			
Issuance of class A common stock options for acquisition services rendered	$ 30	$ —	$ —
Equipment acquired under capital lease obligation	$ 227	$ —	$ 60
Equipment acquired under loan agreement	$ 325	$ —	$ 480
Supplemental disclosure of cash flow information			
Interest paid	$ 566	$ 1,038	$ 1,398
Income taxes paid	$ —	$ 4	$ 360

See accompanying notes.

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BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

BigBand Networks, Inc. (BigBand or the Company), headquartered in Redwood City, California, was incorporated on December 3, 1998, under the laws of the state of Delaware and commenced operations in January 1999. BigBand develops, markets and sells network-based hardware and software platforms that enable cable operators and telecommunications providers to deploy advanced video, voice and data services and more effective video advertising.

In June 2004, the Company acquired ADC Broadband Access Systems, Inc. (BAS) the Cable IP division of ADC Telecommunications, Inc. (ADC, Inc.) in a transaction accounted for as a business combination using the purchase method of accounting (see Note 4). The Company acquired BAS to expand its suite of video product offerings with a data product application.

On December 20, 2006, the Board of Directors approved the filing of a registration statement with the Securities and Exchange Commission for an initial public offering of the Company's common stock.

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

Unaudited Pro Forma Stockholders' Equity

If the offering contemplated by this prospectus is consummated all of the redeemable convertible preferred stock outstanding will automatically convert into 37,759,000 shares of common stock based on the shares of redeemable convertible preferred stock outstanding at December 31, 2006 and all of the outstanding Class B common stock will convert into 3,619,000 shares of common stock based on the shares of Class B common stock outstanding at December 31, 2006. In addition, the preferred stock warrant liability of $3.2 million at December 31, 2006 would be reclassified to additional paid-in-capital. Unaudited pro forma stockholders' equity, as adjusted for the assumed conversion of the redeemable convertible preferred stock and Class B common stock and reclassification of the preferred stock warrant liability, is set forth on the consolidated balance sheets.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Management uses estimates in determining recognition of revenues, provision for inventory write-downs, valuation of stock options and preferred stock warrant liabilities, provision for warranty claims, allowance for doubtful accounts, and valuation of goodwill and other purchased intangible assets and long-lived assets. Management bases its estimates and assumptions on methodologies it believes to be reasonable. Actual results could differ from those estimates, and such differences could affect the results of operations reported in future periods.

Revenue Recognition

The Company's software and hardware are sold as solutions and its software is a significant component of the product. The Company provides unspecified software updates and enhancements related to products through support contracts. As a result, the Company accounts for revenues in accordance with Statement of Position (SOP) 97-2, "*Software Revenue Recognition*," as amended by SOP 98-9, "*Modification of SOP 97-2, Software Revenue Recognition, With Respect to Certain Transactions,*" for all transactions involving the sale of products with a significant software component. Revenue is recognized when all of the following have occurred: (1) the Company

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BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

has entered into an arrangement with a customer; (2) delivery has occurred; (3) customer payment is fixed or determinable and free of contingencies and significant uncertainties; and (4) collection is probable.

Product revenues consist of revenues from sales of the Company's software and hardware. Product sales include a perpetual license to the Company's software. The Company recognizes product revenues upon shipment to its customers, including channel partner distributors, on non-cancelable contracts and purchase orders when all revenue recognition criteria are met, or, if specified in an agreement, upon receipt of final acceptance of the product, provided all other criteria are met. End users, channel partners, and distributors generally have no rights of return, stock rotation rights, or price protection. Shipping charges billed to customers are included in product revenues and the related shipping costs are included in cost of product revenues.

The Company provides allowances for trade-in credits that are estimated based on the terms of the arrangement and past history and adjusted periodically based on actual experience or future expectation. Allowances for trade-in credits are recorded as a liability or reductions of trade receivables.

Substantially all of the Company's product sales have been sold in combination with support services which consist of software updates and support. The Company's customer service agreements (CSA), allow customers to select from plans offering various levels of technical support, unspecified software upgrades and enhancements on an if-and-when-available basis. Revenues for support services are recognized on a straight-line basis over the service contract term, which is typically one year. Revenues from other services, such as standard installation and training, are recognized when services are performed.

The Company uses the residual method to recognize revenues when a customer agreement includes one or more elements to be delivered at a future date and vendor specific objective evidence (VSOE), of the fair value of all undelivered elements exists. Under the residual method, the fair value of the undelivered elements are deferred and the remaining portion of the contract fee is recognized as product revenues. If evidence of the fair value of one or more undelivered elements does not exist, all revenues are deferred and recognized when delivery of those elements occurs or when fair value can be established. VSOE of fair value for elements of an arrangement is based upon the normal pricing and discounting practices for those services when sold separately.

Fees are typically considered to be fixed or determinable at the inception of an arrangement based on specific products and quantities to be delivered. In the event payment terms are greater than 180 days, the fees are deemed not to be fixed or determinable and revenues are recognized when the payments become due, provided the remaining criteria for revenue recognition have been met.

Deferred revenues, net consist primarily of deferred product revenues, net of the associated deferred costs, and deferred customer support service fees. Deferred product revenues generally relate to acceptance provisions that have not been met or partial shipment when the Company does not have VSOE of fair value on the undelivered items. When deferred revenues are recognized as revenues, the associated deferred costs are also recognized as cost of sales. The Company assesses the ability to collect from its customers based on a number of factors, including credit worthiness of the customer and past transaction history of the customer. If the customer is not deemed credit worthy, all revenues are deferred from the arrangement until payment is received and all other revenue recognition criteria have been met.

Cash, Cash Equivalents and Marketable Securities

The Company holds its cash and cash equivalents in checking, money market, and investment accounts with high credit quality financial instruments. The Company considers all highly liquid investments with maturities of

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BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

three months or less when purchased to be cash equivalents. Marketable securities represent highly liquid debt instruments and asset-backed certificates purchased with a remaining maturity date at purchase of greater than 90 days and are stated at fair value. The differences between amortized cost and fair values representing unrealized holding gains or losses, are recorded net of taxes, separately as a component of accumulated other comprehensive income (loss) within stockholders' deficit. Additionally, the Company assesses whether an other-than-temporary impairment loss on its investments has occurred due to declines in fair value or other market conditions. The Company did not consider any declines in fair value to be other-than-temporary. While the Company's intent is to hold debt securities to maturity or reset date, they are classified as available-for-sale because the sale of such securities may be required prior to maturity or reset. Any gains and losses on the sale of debt securities are determined on a specific-identification basis.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, restricted cash, trade receivables, marketable securities, accounts payable, and other accrued liabilities approximate their fair value due to the relative short-term maturities. The carrying amounts of the Company's capital lease obligations, loans payable, preferred stock warrant liability, and other long-term liabilities approximate their fair value. The fair value of capital lease obligations and loans payable was estimated based on the current interest rates available to the Company for debt instruments with similar terms, degrees of risk, and remaining maturities. The fair value of the preferred stock warrant liabilities was estimated using the Black-Scholes valuation model.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities, trade receivables, and restricted cash. Cash and cash equivalents, restricted cash, and marketable securities are invested through major banks and financial institutions in the United States and Israel. Such deposits in the United States may be in excess of insured limits and are not insured in Israel. Management believes that the financial institutions that hold the Company's investments are financially sound and, accordingly, minimal credit risk exists with respect to these investments. The Company's trade receivables are derived primarily from cable and telecommunications operators located mainly in the United States. Concentrations of credit risk with respect to trade receivables exist to the full extent of amounts presented in the financial statements. The Company performs ongoing credit evaluations of its customers and in certain circumstances may require letters of credit or other collateral. The Company estimates an allowance for doubtful accounts through specific identification of potentially uncollectible accounts based on an analysis of its trade receivables aging. Unless otherwise provided, trade receivables are identified as past due when outstanding more than 30 days from the invoice date. Uncollectible receivables are written off against the allowance for doubtful accounts when all efforts to collect them have been exhausted. Recoveries are recognized when they are received. Actual collection losses may differ from estimates and could be material to the consolidated financial position, results of operations, and cash flows.

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BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Customers with trade receivables balances of 10% or greater of the total trade receivables balances as of December 31, 2005 and 2006, and customers with net revenues of 10% or greater of net revenues for the years ended December 31, 2004, 2005, and 2006 are as follows:

	Percentage of Total Trade Receivables as of December 31,		Percentage of Net Revenues for the Periods Ended December 31,		
Customers	2005	2006	2004	2005	2006
A	*%	*%	13%	37%	*%
B	*	11	18	20	13
C	*	*	18	*	10
D	25	36	12	10	19
E	12	37	*	*	32
F	11	*	*	*	*

* Represents less than 10%

The Company does not believe the trade receivables from these customers represent a significant credit risk based on past collection experiences.

Activity related to allowance for doubtful accounts consisted of the following (in thousands):

	Balance at Beginning of Year	Charged to Costs and Expenses	Deductions-Write-offs	Balance at End of Year
Year ended December 31, 2004	$ 21	$ 3	$ (1)	$ 23
Year ended December 31, 2005	23	—	—	23
Year ended December 31, 2006	$ 23	$ 129	$ —	$ 152

Inventories

Inventories consist of raw materials, work-in-process, and finished goods and are stated at lower of standard cost or market. Standard costs approximate the first-in, first-out (FIFO) method. The Company regularly monitors inventory quantities on-hand and records write-downs for excess and obsolete inventories based on the Company's estimate of demand for its products, potential obsolescence of technology, product life cycles, and whether pricing trends or forecasts indicate that the carrying value of inventory exceeds its estimated selling price. These factors are impacted by market and economic conditions, technology changes, and new product introductions and require estimates that may include elements that are uncertain. Actual demand may differ from forecasted demand and may have a material effect on gross margins. If inventory is written down, a new cost basis will be established that can not be increased in future periods.

Property and Equipment, Net

Property and equipment, net are stated at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method and recorded over the estimated useful lives of the assets ranging from 18 months to seven years. The cost of equipment under capital leases is recorded at the lower of the present value of the minimum lease payments or the fair value of the assets and is amortized on a straight-line basis over the shorter of the term of the related lease or the estimated useful life of the asset. Amortization of assets under capital leases is included with depreciation expense in the accompanying consolidated statements of cash flows

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BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Intangible Assets

Intangible assets consist of patented products, customer relationships, and trade names. Intangible assets are carried at cost less accumulated amortization. Amortization is computed using the straight-line method and recorded over the estimated useful lives of the respective assets of four to five years.

Impairment of Long-Lived Assets

The Company periodically evaluates whether changes have occurred that require revision of the remaining useful life of long-lived assets or would render them not recoverable. If such circumstances arise, the Company compares the carrying amount of the long-lived assets to the estimated future undiscounted cash flows expected to be generated by the long-lived assets. If the estimated aggregate undiscounted cash flows are less than the carrying amount of the long-lived assets, an impairment charge, calculated as the amount by which the carrying amount of the assets exceeds the fair value of the assets, is recorded. The fair value of the long-lived assets is determined based on the estimated discounted cash flows expected to be generated from the long-lived assets. Through December 31, 2006, no impairment losses have been identified.

Goodwill

Goodwill is tested for impairment on an annual basis and between annual tests in certain circumstances, and written down when impaired. Based on the impairment tests performed, there was no impairment of goodwill during the years ended December 31, 2004, 2005 and 2006.

Software Development Costs

Software development costs are capitalized beginning when technological feasibility has been established and ending when a product is available for sale to customers. To date, the period between achieving technological feasibility and when the software is made available for sale to customers has been relatively short and software development costs qualifying for capitalization have not been significant. As such, all software development costs have been expensed as incurred in research and development expense.

Income Taxes

Deferred tax assets or liabilities are recognized for the expected tax consequences of temporary differences between the financial statement and tax bases of assets and liabilities using the enacted tax rates that will be in effect when these differences reverse. The Company provides a valuation allowance to reduce deferred assets to the amount that is expected to be realized on a more-likely-than-not basis.

Severance Pay

The Company's wholly owned subsidiary located in Israel is required to fund future severance liabilities determined in accordance with Israeli severance pay laws. Employees are entitled to one month's salary for each year of employment or a portion thereof. The subsidiary's severance liability is funded through insurance policies purchased by the subsidiary. The values of the policies are recorded in other noncurrent assets. Provision for severance expenses for the years ended December 31, 2004, 2005, and 2006, amounted to approximately $0.9 million, $0.8 million, and $1.8 million, respectively.

Stock-Based Compensation

Prior to January 1, 2006, the Company accounted for employee stock-based compensation plans under the valuation and measurement provisions of Accounting Principles Board Opinion No. 25, "*Accounting for Stock*

BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Issued to Employees" (APB 25), and related interpretations as permitted by Statement of Financial Accounting Standards (SFAS) No. 123, "*Accounting For Stock-Based Compensation*" (SFAS 123). In accordance with APB 25, stock-based compensation is calculated using the intrinsic value method and represents the difference between the deemed per share market price of the stock and the per share exercise price of the stock option. The resulting stock-based compensation is deferred and amortized to expense over the grant's vesting period which is generally four years.

Effective January 1, 2006, the Company adopted the provisions of the Financial Accounting Standards Board (FASB) SFAS No. 123R, "*Share-Based Payments*" (SFAS 123R). Under SFAS 123R, stock-based awards, including stock options, are recorded at fair value as of the grant date and recognized to expense over the employee's requisite service period (generally the vesting period) which the Company has elected to amortize on a straight-line basis. The Company adopted the provisions of SFAS 123R using the prospective transition method. Under the prospective transition method, non-vested option awards outstanding as of January 1, 2006, will continue to be accounted for under the intrinsic value method. As a result of adopting SFAS 123R on January 1, 2006, the net income before taxes and net income for the year ended December 31, 2006, were both lower by approximately $1.3 million than if the Company had continued to account for stock-based compensation under APB 25. Basic and diluted net income per share for the year ended December 31, 2006, would have been increased by $0.11 and $0.02, respectively, if the Company had continued to account for stock-based compensation under APB 25. At December 31, 2006, unamortized deferred stock-based compensation was approximately $1.4 million. All awards granted, modified, or settled after the date of adoption are accounted for using the measurement, recognition, and attribution provisions of SFAS 123R.

At December 31, 2006, the Company had one share-based compensation plan which is described in Note 10. The Company allocated stock-based compensation expense as follows (in thousands):

	Years Ended December 31,		
	2004	2005	2006
Cost of net revenues	$ 46	$ 87	$ 336
Research and development	299	516	1,035
Sales and marketing	134	263	637
General and administrative	222	237	516
Total stock-based compensation	$701	$ 1,103	$ 2,524

Foreign Currency Translation

The functional currency of the Company's foreign subsidiaries is the U.S. dollar. Translation adjustments resulting from remeasuring the foreign currency denominated financial statements of subsidiaries into U.S. dollars are included in the Company's consolidated statements of operations. Translation gains and losses have not been significant to date.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes certain changes in equity that are excluded from results of operations. At December 31, 2004 comprehensive loss equaled the net loss. At December 31, 2005 and 2006, accumulated other comprehensive income (loss) was composed of unrealized gains and (losses) on marketable securities of ($18,000) and $9,000 respectively.

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BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Segment Reporting

FASB Statement No. 131, "*Disclosures about Segments of an Enterprise and Related Information*," establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise for which separate financial information is available and is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is the Chief Executive Officer (CEO). The CEO reviews financial information presented on a consolidated basis for evaluating financial performance and allocating resources. There are no segment managers who are held accountable for operations below the consolidated financial statement level. Accordingly, the Company reports as a single reporting segment.

Net revenues by geographical region are as follows (in thousands):

	Years ended December 31,		
	2004	2005	2006
United States	$ 28,551	$ 81,175	$ 157,466
Americas excluding United States	278	931	4,051
Asia	4,585	4,029	3,082
Europe	2,058	11,844	12,025
	$ 35,472	$ 97,979	$ 176,624

Net revenues are allocated to the geographical region based on the shipping destination of customer orders.

Products revenues by product line are as follows (in thousands):

	Years ended December 31,		
	2004	2005	2006
Video	$ 24,567	$ 34,296	$ 121,937
Data	6,969	51,670	32,076
	$ 31,536	$ 85,966	$ 154,013

Long-lived assets by geographical regions are as follows (in thousands):

	As of December 31,	
	2005	2006
United States	$ 5,283	$ 8,148
Israel	2,191	4,519
Other	57	121
	$ 7,531	$ 12,788

Shipping and Handling

Revenues derived from billing customers for shipping and handling costs are classified as a component of net revenues. Costs of shipping and handling charged by suppliers are classified as a component of cost of net revenues.

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BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Research and Development

Research and development costs consist primarily of compensation and related costs for personnel, as well as costs related to materials, supplies, and equipment depreciation. All research and development costs are expensed as incurred.

Advertising Costs

All advertising costs are expensed as incurred. Advertising costs, which are included in sales and marketing expenses, were not significant for all periods presented.

Other Expense, Net

During the years ended December 31, 2004 and 2005, other expense primarily included foreign currency translation gains and losses. During the year ended December 31, 2006, other expense included foreign currency translation losses, proceeds from the sale of preferred stock of an unrelated company, and the expense resulting from fair value adjustments of redeemable convertible preferred stock warrants. Foreign currency gains and losses have not been significant.

Cumulative Effect of Change in Accounting Principle

Effective July 1, 2005, the Company adopted the provisions of Financial Accounting Standards Board Staff Position (FSP) No. 150-5, *"Issuer's Accounting under Statement No. 150 for Freestanding Warrants and Other similar Instruments on Shares that are Redeemable"* (FSP 150-5), an interpretation of FASB Statement No. 150, *"Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity"* (SFAS 150). Pursuant to FSP 150-5, freestanding warrants for shares that are either puttable or warrants for shares that are redeemable are classified as liabilities on the consolidated balance sheet at fair value. At the end of each reporting period, changes in fair value during the period are recorded as a component of other expense, net. Prior to July 1, 2005, the Company accounted for warrants for the purchase of preferred stock under EITF Issue No. 96-18, *"Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services."*

Upon adoption of FSP 150-5, the Company reclassified the fair value of its warrants to purchase shares of its redeemable convertible preferred stock from equity to a liability and recorded a cumulative effect charge of approximately $0.6 million for the change in accounting principle. The Company recorded additional charges of approximately $0.1 million to reflect the increase in fair value between July 1, 2005 and December 31, 2005. In the year ended 2006, the Company recorded approximately $1.5 million of charges reflected as other expense, net to reflect the increase in fair value between December 31, 2005 and 2006. The Company will continue to adjust the liabilities for changes in fair value until the earlier of the exercise of the warrants to purchase shares of its redeemable convertible preferred stock or the completion of a liquidation event, including the completion of an initial public offering, at which time the liabilities will be reclassified to stockholders' equity (deficit).

The pro forma effect of the adoption of FSP 150-5 on the results of operations for fiscal 2004 and 2005 if applied retroactively, assuming FSP 150-5 had been adopted in these years, has not been disclosed as these amounts would not be materially different from the reported amounts.

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BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Recently Issued Accounting Standards

In November 2004, the FASB issued FASB Statement No. 151, *"Inventory Costs,"* (SFAS 151). SFAS 151 clarifies that abnormal inventory costs such as costs of idle facilities, excess freight and handling costs, and wasted materials (spoilage) are required to be recognized as current period charges. The provisions of SFAS 151 are effective for fiscal years beginning after June 15, 2005. The adoption of SFAS 151 did not have a material impact on the Company's consolidated results of operations, financial position, or cash flows.

In May 2005, the FASB issued SFAS No. 154, *"Accounting Changes and Error Corrections"* (SFAS 154). SFAS 154 requires retrospective application to prior periods' financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate affected by a change in accounting principle. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The implementation of SFAS 154 did not have a material impact on the Company's consolidated results of operations, financial position, or cash flows.

In February 2006, the FASB issued SFAS No. 155, *"Accounting for Certain Hybrid Financial Instruments"* (SFAS 155), which amends the guidance in FASB Statements No. 133, *"Accounting for Derivative Instruments and Hedging Activities,"* and No. 140, *"Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."* SFAS 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair-value basis. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company does not expect the adoption of SFAS 155 to have a material impact on the Company's consolidated results of operations, financial position, or cash flows.

In March 2006, the Emerging Issues Task Force reached a consensus on Issue No. 06-03, *"How Taxes Collected from Customers and Remitted to Government Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)"* (EITF No. 06-03). The Company is required to adopt the provisions of EITF No. 06-03 beginning in fiscal year 2007. The Company does not expect the adoption of EITF No. 06-03 to have a material impact on the Company's consolidated results of operations, financial position, or cash flows.

In June 2006, the FASB issued FASB Interpretation No. 48, *"Accounting for Uncertainty in Income Taxes"* (FIN 48), an interpretation of SFAS 109, *"Accounting for Income Taxes"*, which clarifies the recognition and measurement of tax positions taken or expected to taken in a tax return. FIN 48 specifies that the evaluation of the tax position is a two-step process: 1) determining whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation process, and 2) a tax position that meets the more-likely-than-not recognition threshold is measured to determine that amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefits that is greater than 50 percent likely of being realized upon ultimate settlement with a taxing authority. FIN 48 is effective the first fiscal year that begins after December 15, 2006. The Company is currently evaluating the impact of adopting FIN 48 and has not yet determined the impact on the Company's consolidated results of operations, financial position or cash flows

In September 2006, the FASB issued SFAS No. 157, *"Fair Value Measurement"* (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The statement does not require any new fair value

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BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

measurements. SFAS No. 157 is effective for all financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact the adoption of SFAS 157 will have on the consolidated results of operations, financial position, or cash flows.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, "*Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*" (SAB 108). SAB 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the current year's financial statements are materially misstated. SAB 108 is effective during the Company's 2007 fiscal year. The Company does not expect the adoption of SAB 108 to have a material impact on the Company's consolidated results of operations, financial position, or cash flows.

3. Basic and Diluted Net Income (Loss) per Share

Basic net income (loss) per common share is computed by dividing the net income (loss) attributed to common stockholders for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) attributed to common stockholders for the period by the weighted average number of common shares, and potentially dilutive common stock equivalents outstanding during the period. Potentially dilutive common stock equivalents include incremental common stock issuable upon the exercise of stock options and warrants to purchase common and redeemable convertible preferred stock, and the conversion of redeemable convertible preferred stock (using the if-converted method) to the extent they are dilutive. Potentially dilutive common stock equivalents that are anti-dilutive are excluded from the calculation of diluted net income (loss) per common share.

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BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table sets forth the computation of basic and diluted net income (loss) per share for the periods indicated (in thousands, except per share data):

	Years ended December 31,		
	2004	2005	2006
Numerator:			
Net income (loss) before cumulative effect of change in accounting principle	$(33,763)	$(24,862)	$ 8,877
Cumulative effect of change in accounting principle	—	(633)	—
Net income (loss)	$(33,763)	$(25,495)	$ 8,877
Denominator:			
Weighted average common shares outstanding	8,051	10,794	11,433
Less: Restricted stock	(19)	—	—
Weighted average shares used in computing net income (loss) per common share – basic	8,032	10,794	11,433
Add dilutive securities:			
Warrants	—	—	226
Stock options	—	—	7,632
Conversion of redeemable convertible preferred stock	—	—	37,762
Weighted average shares used in computing net income (loss) per common share – diluted	8,032	10,794	57,053
Net income (loss) per common share – basic			
Net income (loss) before cumulative effect of a change in accounting principle	$ (4.20)	$ (2.30)	$ 0.78
Cumulative effect of a change in accounting principle	—	(0.06)	—
Net income (loss)	$ (4.20)	$ (2.36)	$ 0.78
Net income (loss) per common share – diluted			
Net income (loss) before cumulative effect of a change in accounting principle	$ (4.20)	$ (2.30)	$ 0.16
Cumulative effect of a change in accounting principle	—	(0.06)	—
Net income (loss)	$ (4.20)	$ (2.36)	$ 0.16
Weighted average shares used in computing net income (loss) per common share above – basic			11,433
Pro forma adjustment to reflect assumed conversion of redeemable convertible preferred stock (unaudited)			37,762
Weighted average shares used in computing pro forma net income per common share – basic (unaudited)			49,195
Warrants			226
Stock options			7,632
Weighted average shares used in computing pro forma net income per common share – diluted (unaudited)			57,053
Pro forma net income per common share – basic (unaudited)			$ 0.18
Pro forma net income per common share – diluted (unaudited)			$ 0.16

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BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of December 31, 2004, 2005 and 2006, the Company had securities outstanding which could potentially dilute basic income (loss) per share in the future, but which were excluded from the computation of diluted net income (loss) per share as their effect would have been anti-dilutive due to the Company being in a loss position or due to outstanding options or warrants having exercise prices greater than the average fair market value for the respective periods presented.

Potentially dilutive outstanding securities consist of the following (shares in thousands):

	As of December 31,		
	2004	2005	2006
Restricted common stock	19	—	—
Stock options outstanding	10,527	11,094	4,410
Conversion of warrants to purchase redeemable convertible preferred stock	550	550	160
Warrants to purchase common stock	1,151	401	401
Conversion of redeemable convertible preferred stock	37,762	37,762	—

Pro forma basic and diluted net income (loss) per common share have been computed to give effect to the conversion of the Company's redeemable convertible preferred stock (using the if-converted-method) into common stock as though the conversion had occurred on the original dates of issuance.

4. Acquisition of ADC's Broadband Access Systems, Inc. (BAS)

On June 29, 2004, the Company completed the acquisition of BAS in a transaction accounted for as a business combination using the purchase method. The results of BAS have been included in the accompanying consolidated results of operations subsequent to the date of acquisition.

The purchase price is as follows (in thousands):

Cash	$ 10
3,619 shares of class B nonvoting common stock	6,080
4,008 shares of series E-2 preferred stock	17,500
Acquisition related costs	1,520
Total purchase price	$25,110

The Company, with the assistance of Empire Valuation Consultants, LLC, an unrelated third-party valuation specialist, determined the fair value of the class B nonvoting common stock and the series E-2 preferred stock issued as part of the acquisition. Such valuation required management to make significant estimates and assumptions.

Under the purchase method of accounting, the purchase price as shown in the previous table was allocated among the tangible and identifiable intangible assets acquired and liabilities assumed on the basis of their estimated fair values on the acquisition date. The Company engaged Empire Valuation Consultants, LLC, an unrelated third-party valuation specialist to assist in determining the fair values of certain assets acquired. Such valuation required management to make significant estimates and assumptions, especially with respect to the fair value of intangible assets.

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BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The purchase price allocation is as follows (in thousands):

Cash and cash equivalents	$ 5
Trade receivables	1,048
Restructuring receivable from ADC Telecommunications, Inc.	785
Investment in preferred stock of subsidiary of Kabelnetz, Inc.	5,259
Inventories	17,044
Property and equipment	6,569
Accounts payable and other accrued liabilities	(7,452)
Restructuring accrual	(785)
Deferred revenues	(1,360)
Accrued warranty	(1,362)
Net tangible assets acquired	19,751
Intangible assets acquired:	
Patented products	1,564
Customer relationships	670
Trade names	503
In-process research and development	966
Goodwill	1,656
Total purchase price	$25,110

Patented Products. Patented products represent the value assigned to the entire *Cuda* product line plus *FastFlow.* To estimate the fair value of the patented products, an income approach was used that included an analysis to determine the net present value of future cash flows. The patented products are amortized over their expected useful lives of 5 years.

Customer Relationship. Customer relationships represent the value assigned to BAS's key customer relationships. To estimate the fair value of the customer relationships, an income approach was used that included an analysis to determine the net present value of future cash flows. The customer relationships are amortized over their expected useful lives of 5 years.

Trade Names. Trade names represent the value assigned to BAS's trade names *Cuda* and *FastFlow.* To estimate the fair value of the trade names, a relief from the royalty approach was used. The Company expects to continue the use of these trade names for the foreseeable future. Trade names are amortized over their expected useful lives of 4 years.

In-Process Research and Development. In-process research and development (IPR&D) represents software in development, including the next version of *Cuda,* that: (i) had not demonstrated technological feasibility and (ii) had no alternative future uses at the time of acquisition. To estimate the fair value of IPR&D, an income approach was used that included an analysis to determine the net present value of future cash flows.

Goodwill. Goodwill represents the excess of the purchase price over the fair value of the underlying net identifiable assets acquired. The goodwill reflects the Company's recognition of the value of future technological and product developments, time-to-market benefits, synergies, workforce, and strategic positioning value. The goodwill is not deductible for income tax purposes.

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BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Pro forma information as if the Company had acquired BAS at the beginning of the period presented is as follows (in thousands):

	Year ended December 31, 2004
	(Unaudited)
Revenues	$ 47,771
Net loss	$ (51,763)

5. Balance Sheet Data

Marketable Securities

In accordance with EITF 03-1, *"The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments,"* the following table shows gross unrealized gains (losses) and fair value as of December 31, 2005, and 2006, aggregated by investment category. Marketable securities include the following available-for-sale securities, with maturity dates within one year (in thousands):

	As of December 31,			
	2005		2006	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Gains
Asset-backed certificates	$2,745	$ (7)	$ 5,140	$ 1
Corporate debt securities	4,176	(11)	6,599	—
Commercial paper	—	—	15,165	8
Total	$6,921	$ (18)	$26,904	$ 9

Inventories

Inventories are comprised of the following (in thousands):

	As of December 31,	
	2005	2006
Raw materials, parts and supplies	$ 1,029	$ 904
Work-in-progress	2,224	1,059
Finished products	18,271	5,190
Total inventory	$ 21,524	$ 7,153

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BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Property and Equipment, Net

Property and equipment, net is comprised of the following (in thousands):

	As of December 31, 2005	As of December 31, 2006
Computers, software and related equipment	$ 6,743	$ 11,128
Office furniture and fixtures	557	836
Engineering and other equipment	13,398	19,408
Leasehold improvements	1,546	2,049
	22,244	33,421
Less: accumulated depreciation	(14,713)	(20,633)
Total property and equipment	$ 7,531	$ 12,788

At December 31, 2005 and 2006, equipment amounting to $3.1 million, and $3.2 million, respectively, was capitalized under capital leases. Related accumulated amortization at December 31, 2005 and 2006, $2.8 million and $3.1 million, respectively.

Intangible Assets

Intangible assets are comprised of the following (in thousands):

	Cost	Accumulated Amortization	Net Book Value
As of December 31, 2005			
Patented products	$1,564	$ (469)	$ 1,095
Customer relationships	670	(201)	469
Trade names	503	(189)	314
Total intangible assets	$2,737	$ (859)	$ 1,878

	Cost	Accumulated Amortization	Net Book Value
As of December 31, 2006			
Patented products	$1,564	$ (782)	$ 782
Customer relationships	670	(335)	335
Trade names	503	(314)	189
Total intangible assets	$2,737	$ (1,431)	$ 1,306

The estimated future amortization expense of intangible assets as of December 31, 2006, is as follows (in thousands):

Years ending December 31,	
2007	572
2008	510
2009	224
Total	$1,306

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BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Goodwill

The carrying value of goodwill was approximately $1.7 million at both December 31, 2005 and 2006. There were no additions or adjustments to goodwill during fiscal years 2005 and 2006.

Restricted Cash

Restricted cash consists of a certificate of deposit that is used to secure a standby letter of credit required in connection with an operating lease of the Company and cash used as credit card collateral.

Other Non-current Assets

Other non-current assets consist of the following (in thousands):

	As of December 31,	
	2005	2006
Severance pay fund	$ 1,322	$ 1,771
Deferred tax assets	—	552
Other	502	1,606
Total other non-current assets	$ 1,824	$ 3,929

Preferred Stock Warrant Liabilities

Significant terms and fair value of warrants to purchase preferred stock are as follows (in thousands, except per share data):

Stock	Expiration Date	Exercise Price Per Share	Shares as of December 31, 2005	Shares as of December 31, 2006	Fair Value as of December 31, 2005	Fair Value as of December 31, 2006
Series A-1 preferred	Earlier of (i) October 15, 2008, or (ii) the closing of an initial public offering of the Company's common stock	$ 2.00	36	36	$ 162	$ 415
Series B preferred	January 5, 2006	24.00	8	—	—	—
Series C preferred	Earlier of (i) February 20, 2010, or (ii) three years after the closing of an initial public offering of the Company's common stock	2.64	182	182	717	1,570
Series C preferred	Earlier of (i) January 15, 2008, or (ii) the closing of an initial public offering of the Company's common stock	2.64	23	23	77	180
Series E-1 preferred	Later of (i) June 29, 2011, or (ii) three years after closing of an initial public offering of the Company's common stock	4.37	161	161	686	987
Total			410	402	$ 1,642	$ 3,152

Those warrants that do not expire on the closing of an initial public offering will convert into warrants to purchase shares of common stock at the applicable conversion rate for the related redeemable convertible preferred stock (currently 1-for-1.47 for series C preferred stock and 1-for-1 for series E-1 preferred stock).

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BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The fair value of the above warrants was determined using the Black-Scholes pricing model using the following assumptions:

	As of December 31,	
	2005	2006
Risk-free interest	4.0-4.1%	4.6-5.0%
Volatility	100%	91%
Dividend yield	—	—
Remaining contractual term	0.1-5.4 years	1.0-4.4 years

In January 2006, warrants to purchase 8,334 shares of series B preferred stock at an exercise price of $24.00 expired unexercised.

Deferred Revenues, Net

Deferred revenues, net consists of the following (in thousands):

	As of December 31,	
	2005	2006
Deferred product revenues, net	$ 22,245	$ 27,335
Deferred service revenues	6,549	23,267
Total deferred revenues, net	28,794	50,602
Less deferred revenues, net, current portion	(28,232)	(39,553)
Deferred revenues, net, less current portion	$ 562	$ 11,049

Accrued Warranty

The Company provides a warranty for its software and hardware products. Software is warranted to be free of defects generally for a period of 90 days and hardware generally for a period of one to five years from the date of shipment. The Company accrues for potential warranty claims based on the Company's historical claims experience. The adequacy of the accrual is reviewed on a periodic basis and adjusted, if necessary, based on additional information as it becomes available.

Activity related to the product warranty is as follows (in thousands):

	Years ended December 31,	
	2005	2006
Balance at beginning of year	$ 2,316	$ 3,913
Warranty charged to cost of sales	3,487	2,715
Utilization of warranty	(1,793)	(2,344)
Other adjustments	(97)	(148)
Total accrued warranty	3,913	4,136
Less accrued warranty, current portion	(3,913)	(3,241)
Accrued warranty, less current portion	$ —	$ 895

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BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Other Current Liabilities

Other current liabilities consist of the following (in thousands):

	As of December 31,	
	2005	2006
Foreign, franchise, and other income tax liabilities	$ 1,639	$ 4,752
Sales and use tax payable	1,127	1,340
Customer product trade-in provision	949	1,071
Accrued professional fees	605	1,261
Other	885	1,300
Total other current liabilities	$ 5,205	$ 9,724

6. Commitments and Contingencies

Commitments

The Company and its subsidiaries operate from leased premises in the United States, Israel, Asia, and Europe with original lease periods expiring in 2007 and 2012. The Company is committed to pay a portion of the buildings' operating expenses as determined under the lease agreements. The terms of certain lease agreements in Asia have automatic renewal provisions in one year increments. Certain of the leases are with a related party, ADC Telecommunications, Inc., a stockholder. Future minimum lease payments due under the related operating leases with a remaining non-cancelable lease term in excess of one year are as follows (in thousands):

	ADC	Other	Total
Years ending December 31,			
2007	371	2,203	2,574
2008	—	1,942	1,942
2009	—	1,528	1,528
2010	—	1,615	1,615
2011	—	1,637	1,637
Thereafter	—	409	409
	$371	$9,334	$9,705

The terms of certain lease arrangements have free or escalating rent payment provisions, and when significant, the rent expense is recognized on a straight-line basis over the lease period resulting in a deferred rent liability. Leasehold improvements are amortized over the shorter of their useful life or the contractual lease term. Rent expense under operating leases was approximately $1.8 million, $3.0 million, $3.2 million, for the years ended December 31, 2004, 2005 and 2006, respectively. Of these amounts, approximately $0.8 million, $1.5 million, $1.4 million, pertains to the ADC Telecommunications, Inc. leases for the years ended December 31, 2004, 2005 and 2006, respectively.

Litigation

From time to time, the Company may be subject to claims, legal actions, and complaints, including patent infringement, arising in the normal course of business. Although there can be no assurance as to the ultimate disposition of these matters, the Company's management has determined, based upon the information available on the date of these financial statements, that the expected outcome of these matters, individually or in the aggregate, will not have a material adverse effect on the Company's consolidated financial position, results of operations, or cash flows.

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BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Indemnities

From time to time, in its normal course of business, the Company may indemnify other parties with whom it enters into contractual relationships, including customers, lessors, and parties to other transactions with the Company. The Company may agree to hold other parties harmless against specific losses such as those that could arise from a breach of representation or breach of covenant, or third-party infringement claims. It may not be possible to determine the maximum potential amount of liability under such indemnification obligations due to the unique facts and circumstances that are likely to be involved in each particular claim and indemnification provision. Historically, there have been no such indemnification claims.

7. Financing

	As of December 31,	
	2005	2006
	(in thousands)	
Line of credit	$ 4,200	$ 4,000
Loans payable	12	10,480
Loans payable to ADC Telecommunications, Inc. (a stockholder)	7,000	—
	11,212	14,480
Less: current portion	(4,212)	(5,913)
	$ 7,000	$ 8,567

Loans Payable

In November 2004, the Company signed a loan and security agreement with a third-party financial institution providing for revolving advances of up to $14 million. Advances accrue interest at 11% per annum payable monthly. The principal amount and any unpaid accrued interest was due on November 15, 2006. Loan origination costs of $86,406 were amortized to interest expense over the term of the loan. The agreement was secured by all the assets of the Company except for certain intellectual property. During the year ended December 31, 2006, the loan was fully repaid.

Additionally, in connection with the loan and security agreement, the Company entered into a stock pledge agreement. The stock pledge agreement assigned to the lender a security interest in the Company's rights, title, and interests in certain shares of the Company's subsidiaries' stock. The wholly owned subsidiary companies and the percentage of stock pledged are as follows: BigBand Networks BAS, Inc. – 100%, BigBand Networks, LTD – 65%, and BigBand Networks International – 100%. During the year ended December 31, 2006, and as a result of the related loan being fully repaid, the stock pledge agreement was cancelled.

In August 2006, the Company signed a loan and security agreement with a third-party financial institution providing for a term loan of $10.0 million and a revolving line of credit of up to $20.0 million. The term loan accrues interest at prime (8.25% at December 31, 2006) plus one quarter of one percent, payable monthly. The borrowing base on the Company's revolving line of credit up to a maximum of $20 million is based on the total of (i) 80% of eligible accounts receivable, (ii) the lower of 50% of the value of eligible inventory or 50% of eligible customer purchase orders up to a maximum of $10 million, and (iii) 50% of cash and cash equivalents and marketable securities. If certain financial ratios are not maintained, interest accrues at prime plus one and one half percent until those ratios are re-established. The term loan balance is repayable in equal monthly installments commencing September 2007 of approximately $0.4 million for a period of twenty-four months with final payment in August 2009. The advances on the revolving line of credit accrue interest at prime (8.25% at December 31, 2006), payable monthly. If certain financial ratios are not maintained, interest accrues at prime plus

one and one half percent until those ratios are re-established. The principal amount and any unpaid interest on the revolving line of credit are due in August 2008. Non-refundable loan commitment fees incurred at the inception of the loans are being amortized to interest expense over the term of the loan. Annual facility fees equal to one half of one percent of the revolving line of credit balance are due on each anniversary date. If the revolving line of credit is cancelled for any reason by the Company, a termination fee of three quarters of one percent of the revolving credit line amount is charged if cancelled prior to the first anniversary of the effective date, or one half of one percent if after the first anniversary of the effective date, unless in either case, the Company enters into a new agreement with the lender. The agreement allows payment of dividends solely in common stock. The agreement is secured by all the assets of the Company except for certain intellectual property. As of December 31, 2006, $10.0 million and $4.0 million were outstanding under the term loan and the revolving line of credit, respectively.

In December 2006, the Company entered into a license agreement with a vendor for software and related support services. The agreement provides for an initial payment due upon purchase of the license with two installment payments due in December 2007 and 2008. The Company recorded the cost of the software equal to the initial payment and the discounted value of the installment payments based on an imputed interest rate of 8.0%. The present value of the future installment payments at December 31, 2006, is approximately $479,000.

Loan Payable to ADC Telecommunications, Inc., a Stockholder

In June 2004, the Company signed a credit and security agreement with ADC Telecommunications, Inc., a stockholder, at the same time as the BAS acquisition (see Note 4). Amounts advanced under the agreement accrued interest at the prime rate plus 1% per annum (6.25% at December 31, 2005).

Maturity was on a "first to occur" event basis, of which, the most significant events were: (1) June 29, 2007, (2) the closing of the sale of shares of common stock in an initial public offering, and (3) the closing of any merger, acquisition, license, or sale of all or a substantial portion of the assets of the Company. The agreement was secured by certain intellectual property of the Company. During the year ended December 31, 2006, the loan was fully repaid.

In June 2004 and pursuant to the credit and security agreement, a warrant was issued to purchase up to 400,825 shares of the Company's class B common stock at the exercise price of $4.37 per share. The fair value of the warrant was approximately $0.4 million, which has been accounted for as a cost of financing and was amortized to interest expense over its estimated term of three years. During the year ended December 31, 2006, and as a result of the related loan being fully repaid, the remaining balance of deferred financing costs was expensed.

Capital Leases

The Company leases property and equipment under leases classified as capital leases. Future payments due under capital leases as of December 31, 2006 are as follows (in thousands):

Years ending December 31,	
2007	$ 27
2008	23
2009	13
Less: amount representing interest	(7)
Present value of minimum lease payments	56
Less: current portion of capital lease obligation	(24)
Long-term portion of capital lease obligations	$ 32

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BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Principal payments

Principal payments due for financings, including capital leases, over the next three years are as follows (in thousands):

Years ending December 31,	
2007	$ 1,954
2008	9,283
2009	3,346
Less: amount representing interest on capital leases and imputed interest	(47)
Total principal payments due in future periods	$14,536

8. Redeemable Convertible Preferred Stock

Redeemable convertible preferred stock consisted of the following (in thousands):

	As of December 31,	
	2005	2006
Series A, 788 shares designated at December 2005 and December 2006, respectively; 197 shares issued and outstanding at December 31, 2005 and 2006, respectively. Aggregate liquidation preference of $260 for all periods	$ 260	$ 260
Series A-1, 1,566 shares designated at December 2005 and 2006, respectively; 356 shares issued and outstanding at December 31, 2005 and 2006, respectively. Aggregate liquidation preference of $712 for all periods	712	712
Series A-2, 2,600 shares designated at December 2005 and 2006, respectively; 650 shares issued and outstanding at December 31, 2005 and 2006, respectively. Aggregate liquidation preference of $1,300 for all periods	1,244	1,244
Series B, 6,990 shares designated at December 2005 and 2006, respectively; 1,739 shares issued and outstanding at December 31, 2005 and 2006, respectively. Aggregate liquidation preference of $27,828 for all periods	27,748	27,748
Series C, 46,301 shares designated at December 2005 and 2006, respectively; 11,371 shares issued and outstanding at December 31, 2005 and 2006, respectively. Aggregate liquidation preference of $30,018 for all periods	29,882	29,882
Series D, 21,521 shares designated at December 2005 and 2006, respectively; 5,380 shares issued and outstanding at December 31, 2005 and 2006, respectively. Aggregate liquidation preference of $15,000 for all periods	14,911	14,911
Series E-1, 27,500 shares designated at December 2005 and 2006, respectively; 5,738 shares issued and outstanding at December 31, 2005 and 2006, respectively. Aggregate liquidation preference of $25,050 for all periods	25,050	25,050
Series E-2, 21,000 shares designated at December 2005 and 2006, respectively; 4,008 shares issued and outstanding at December 31, 2005 and 2006. Aggregate liquidation preference of $17,500 for all periods	17,500	17,500
	$ 117,307	$ 117,307

Significant rights of preferred stock are as follows:

Voting Rights—The holders of series A through E-1 redeemable convertible preferred stock are entitled to one vote for each share of common stock into which such share may be converted. Holders of series E-2 redeemable convertible preferred stock are not entitled to vote.

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Dividends—The holders of the redeemable convertible preferred stock are entitled, when, as, and if declared by the Board of Directors, to non-cumulative dividends of (i) $0.12 per share for series A, (ii) $0.16 per share for series A-1 and A-2, (iii) $1.28 per share for series B, (iv) $0.20 per share for series C, (v) $2.24 per share for series D, and (vi) $0.36 per share for series E-1 and E-2, in preference and priority to the common stock dividends. Once the redeemable convertible preferred stockholders have received their dividend preference, the holders of all series of redeemable convertible preferred stock are entitled, when, as, and if declared by the Board of Directors, to non-cumulative dividends equal to those paid to the common stockholders determined on an as-if-converted basis.

Liquidation—In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company, all assets of the Company available for distribution among the holders of redeemable convertible preferred stock will be distributed to them in the following order: (i) each holder of shares of series E-1 and E-2 is entitled to a $4.36 per share distribution before any payment can be made to holders of shares of series A through D, (ii) each holder of shares of series D is entitled to a $2.80 per share distribution before any payment can be made to holders of shares of series A through C, (iii) each holder of a share of series C is entitled to a $2.64 per share distribution before any payment can be made to holders of series A and B, (iv) each holder of a share of series A and B is entitled to a $1.32, $2.00, $2.00 and $16.00 per share distribution for series A, A-1, A-2, and B, respectively. In the event the assets available for distribution are in excess of the amount necessary to pay the above distributions in full, each holder of series A through D is entitled to an additional per share distribution equal to that of holders of common stock, determined on an as-if-converted basis; however, the aggregate of all distributions to series A-2, B, C, and D can not exceed $48.00, $48.00, $5.36, and $8.36 per share, respectively. In the event that the assets available for distribution are insufficient to make the full per share distributions, all such assets will be distributed among the holders of the respective series in proportion to the full preference to which such holders would otherwise be entitled.

A liquidation or winding up of the company, a greater than 50% change in control or a sale of substantially all of the Company's assets would constitute a redemption event. As the redemption event is outside the Company's control, all shares of redeemable convertible preferred stock have been presented outside of permanent equity in accordance with EITF Topic D-98, *"Classification and Measurement of Redeemable Securities."* The Company has elected not to adjust the carrying values of series A, A-1, A-2, B, C, D, E-1 and E-2 redeemable convertible preferred stock to their respective redemption values since it is uncertain whether or when a redemption event will occur. Subsequent adjustments to increase the carrying value to the redemption values will be made when it becomes probable that such redemption will occur.

Conversion—The holders of series A through E-1 redeemable convertible preferred stock have the right, at the option of the holder, at any time, to convert their shares into shares of class A common stock at the then-applicable conversion rate (currently 1-for-2 for series A, A-1, A-2, and B, 1-for-1.47 for series C, and 1-for-1 for series D and E-1), which is subject to adjustment for future dilution and other events. The holders of series E-2 redeemable convertible preferred stock have the right, at the option of the holder, at any time, to convert their shares into shares of either (i) class B common stock or (ii) class A common stock following registration of such stock at the then-applicable conversion rate (currently 1-for-1), which is subject to adjustment for future dilution and other events.

Following a closing of a qualifying public offering, the Company has the right to require conversion of shares of each series of redeemable convertible preferred stock, on a series-by-series basis, into shares of class A common stock at the then-current conversion rate for each series.

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BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

9. Related-Party Transactions

In addition to related-party transactions and balances separately disclosed elsewhere in these financial statements, the Company had certain other related-party transactions.

Beginning in 2002, the Company had an agreement with a member of its Board of Directors to provide the Company strategic advisory services. The Company recorded consulting fees for these services of approximately $90,000 for each of the years ended December 31, 2004, and 2005 and 2006, which were recorded in general and administrative expenses in the accompanying consolidated statements of operations. As of December 31, 2005, and 2006, amounts included in accounts payable in the accompanying consolidated balance sheets amounted to $0 and $15,035, respectively.

10. Stockholders' Equity (Deficit)

Common Stock

The rights attached to the different classes of common stock of the Company are as follows:

Voting Rights—The holders of class A common stock are entitled to one vote per share on all matters submitted to the stockholders of the Company. The holders of class B common stock are not entitled to vote.

Conversion—Upon closing of a public offering of class A common stock, all class B common stock automatically converts to class A common stock on a 1-for-1 basis. Upon registration of the Company's class A common stock or a consolidation, merger, reorganization or other similar transaction, the holders of class B common stock have the right, at the option of the holder, to convert their shares into shares of class A common stock.

Dividends—Subject to the preferential rights of holders of the redeemable convertible preferred stock, if any, the holders of shares of common stock shall be entitled to receive dividends from the Company's assets when, as, and if declared by the Board of Directors. The holders of class A and B common stock are entitled to share equally, on a per share basis, in such dividends, except in the case of stock dividends that will be made (i) in class B common stock to holders of class A and B common stock, (ii) in class A common stock to holders of class A common stock, and in class B common stock to holders of class B common stock, or (iii) in any other authorized class or series of capital stock to the holders of class A and B common stock.

Liquidation—Subject to the preferential rights of holders of the redeemable convertible preferred stock, if any, the holders of common stock are entitled to receive the remaining assets legally available for distribution. The holders of class A and B common stock are entitled to share equally, on a per share basis, in such distribution.

Common Stock Warrants

The Company had the following unexercised common stock warrant as of December 31, 2005 and 2006 (in thousands, except per share data):

Class	Expiration Date	Exercise Price Per Share	Shares Unexercised
Class B common	Earlier of (i) June 29, 2009, or (ii) three years after the closing of an initial public offering of the Company's common stock	$ 4.37	401

In June 2004, a warrant to purchase 750,000 shares of class A common stock was exercised, with total proceeds of approximately $1.9 million paid to the Company.

BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Stock Options

The Company's 2003 Share Option and Incentive Plan (the Plan) allows the Company to award stock option grants and restricted stock to employees, officers, directors and consultants of the Company. The exercise price of incentive stock options granted under the Plan may not be less than 100% of the fair market value of the Company's common stock on the date of the grant. The exercise price of nonqualified stock options cannot be less than 85% of the market value on the date of grant. Options granted under the Plan are generally exercisable in installments vesting annually over a four-year period. Options granted under the plan have a maximum term of ten years from the date of grant.

Data pertaining to stock option activity under the Plan is as follows (in thousands, except per share and year data):

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2003	5,722	$ 0.76	8.66	$ 5,542
Granted	5,874	0.96		
Exercised	(136)	0.72		
Canceled	(933)	0.84		
Outstanding at December 31, 2004	10,527	0.88	8.80	$ 8,716
Granted	1,884	1.72		
Exercised	(644)	0.80		
Canceled	(674)	0.88		
Outstanding at December 31, 2005	11,093	1.02	8.14	$ 13,141
Granted	6,284	4.39		
Exercised	(708)	1.08		
Canceled	(649)	1.64		
Outstanding at December 31, 2006	16,020	2.31	8.09	$ 55,194
Vested and expected to vest	15,531		8.04	$ 54,355

The following table summarizes the information about stock options outstanding and exercisable as of December 31, 2006 (shares in thousands):

	Options Outstanding			Options Exercisable	
Exercise Price	Number	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	No. of Shares Exercisable	Weighted Average Exercise Price
$ 0.20-0.76	3,847	6.31	$ 0.65	3,500	$ 0.63
0.80	439	4.99	0.80	435	0.80
1.00	3,834	7.77	1.00	2,361	1.00
1.32-2.60	3,490	8.55	2.03	878	1.89
5.28-5.36	4,410	9.85	5.29	33	5.28
	16,020		$ 2.31	7,207	$ 0.94

The weighted-average grant-date fair value of options granted during the year ended December 31, 2006 on a per-share basis was approximately $3.57. The total intrinsic value of options exercised during the years ended December 31, 2004, 2005, and 2006, was $84,703, $492,166, and $471,777, respectively.

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BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The weighted-average fair value and exercise price of options granted during the year ended December 31, 2006 are as follows:

Weighted-average fair value:	
Options granted below deemed market value	$3.57
Options granted equal to deemed market value	$ —
Weighted-average exercise price:	
Options granted below deemed market value	$4.39
Options granted equal to deemed market value	$ —

Stock-Based Compensation

During the years ended December 31, 2004 and 2005, the Company recorded deferred stock-based compensation of approximately $4.0 million and $0.4 million, respectively, related to stock option grants valued under the intrinsic value method.

Beginning on January 1, 2006, and upon the adoption of SFAS 123R, the fair value of each new option awarded is estimated on the grant date using the Black-Scholes valuation model using the assumptions noted in the following table:

	Year ended December 31, 2006
Expected Volatility	91%–98%
Expected Term	6 years
Risk-free interest	4.57%–4.96%
Expected dividends	—

The Company's expected volatility is derived from historical volatilities of several unrelated companies within the communications equipment industry. Each company's historical volatility is weighted based on certain qualitative factors and combined to produce a single volatility factor used by the Company. The risk-free interest factor is based on the U.S. Treasury yield curve in effect at the time of grant for zero coupon U.S. Treasury notes with maturities approximately equal to each grant's expected term. The expected term is calculated using the "short-cut" method provided in the Securities Exchange Commission's Staff Accounting Bulletin No. 107, which takes into consideration the grant's contractual life and the vesting periods. The Company estimates its forfeiture rate based on an analysis of its actual forfeitures and will continue to evaluate the adequacy of the forfeiture rate based on actual forfeiture experience, analysis of employee turnover behavior, and other factors. The impact from a forfeiture rate adjustment will be recognized in full in the period of adjustment. During the year ended December 31, 2006, the Company recorded additional stock-based compensation under the fair value requirements of SFAS 123R of approximately $1.4 million.

As of December 31, 2006, pursuant to SFAS 123R, there was $19.1 million of total unrecognized compensation costs related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 3.7 years. The total fair value of shares vested during the year ended December 31, 2006, was approximately $2.0 million.

During the year ended December 31, 2006, and at the election of certain employees, the Company exchanged previously awarded stock option grants for grants providing the same number of shares, vesting terms, an exercise price equal to the deemed fair value of the underlying class A common stock at the time of the original grant, and a series of annual cash payments (or shares of the Company's class A common stock). In

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BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

accordance with SFAS 123R, the Company accounted for this exchange as a modification. The total compensation for this modification is $240,000, of which the Company accrued approximately $102,000 for the year ended December 31, 2006.

Non-Employee Options

In connection with the grant of options to purchase 32,500 shares of class A common stock to non-employees for services performed relating to the acquisition of BAS in June 2004 (see Note 4), the Company recorded the fair value of approximately $30,000 as acquisition-related costs. These options were fully vested and exercisable upon issuance.

During the year ended December 31, 2006, and in connection with a grant of options to purchase 50,000 shares of class A common stock for services performed by a member of the board of directors, the Company recorded the fair value of approximately $24,000 as stock-based compensation.

Shares Reserved

Class A common stock reserved for future issuance is as follows (in thousands):

	As of December 31,	
	2005	2006
Conversion of redeemable convertible preferred stock	37,759	37,759
Conversion of class B common stock	3,619	3,619
Warrants to purchase redeemable convertible preferred and common stock	951	934
Stock options:		
Outstanding	11,093	16,020
Reserved for future grants	687	2,129
	54,109	60,461

11. Income Taxes

The Company's net income (loss) before provision for income tax and cumulative effect of change in accounting principle was comprised of the following (in thousands):

	Years ended December 31,		
	2004	2005	2006
Domestic	$(33,908)	$(25,066)	$ 9,868
Foreign	395	529	1,534
Net income (loss) before provision for income tax and cumulative effect of change in accounting principle	$(33,513)	$(24,537)	$11,402

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BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Provision for income tax consisted of the following (in thousands):

	Years ended December 31,		
	2004	2005	2006
Current:			
Federal	$—	$—	$ 376
State	—	—	112
Foreign	250	259	2,544
	250	259	3,032
Deferred:			
Federal	—	58	39
State	—	8	6
Foreign	—	—	(552)
	—	66	(507)
Total	$250	$325	$2,525

Reconciliations of the provisions for income tax at the statutory rate to the Company's provision for income tax are as follows (in thousands):

	Years ended December 31,		
	2004	2005	2006
Tax provision (benefit) at federal statutory rate	$(11,676)	$(8,588)	$ 3,850
U.S. losses not benefited (net operating loss carryforward utilized)	12,461	9,507	(3,445)
Foreign operations	250	259	1,370
State taxes	—	—	77
Research and development tax credits	(834)	(1,194)	(1,485)
Stock-based compensation	—	243	756
Warrant amortization	—	—	842
Permanent items	49	98	560
Provision for income taxes	$ 250	$ 325	$ 2,525

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BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Significant components of the Company's net deferred tax assets are as follows (in thousands):

	As of December 31, 2005	As of December 31, 2006
Deferred tax assets:		
Reserves and accruals	$ 4,285	$ 6,474
Stock compensation	13	168
Depreciation and amortization	2,111	2,037
Net operating loss carryforwards	48,883	33,803
Tax credit carryforwards	2,338	4,248
Total deferred tax assets	57,630	46,730
Deferred tax liabilities:		
Goodwill	(66)	(110)
Gross deferred taxes	57,564	46,620
Valuation allowance	(57,630)	(46,178)
Net deferred taxes	$ (66)	$ 442

Recognition of deferred tax assets is appropriate when realization of such assets is more likely than not. Based upon the weight of available evidence, which includes the Company's historical operating performance and the recorded domestic cumulative net losses in all prior fiscal periods, the Company has provided a full valuation allowance against its U.S. deferred tax assets. The Company's valuation allowance increased by $16.1 million and $7.2 million and decreased by $11.5 million in the years ended December 31, 2004, 2005 and 2006, respectively. As of December 31, 2006, the Company has U.S. federal and state net operating losses of approximately $93.8 million and $46.0 million, respectively. The U.S. federal net operating loss carryforwards will expire at various dates beginning in 2019 through 2025 if not utilized. Most state net operating loss carryforwards will expire at various dates beginning in 2008 through 2026.

As of December 31, 2006, the Company has U.S. federal and state tax credit carryforwards of approximately $2.4 million for federal and $2.3 million for state. The federal credit will expire at various dates beginning in 2020 through 2026 if unused. The California state research and development credits can be carried forward indefinitely. Other state incentive tax credits will expire at various dates beginning in 2009 through 2021.

During the three months ended December 31, 2006, the Company recorded an additional income tax provision of $1.3 million related to the resolution of a tax audit in Israel which was different than the Company's original estimate and in excess of the amounts previously recorded. The $1.3 million includes the effects for the years ended December 31, 1999 through 2003 that were covered by the tax audit and the expected effects for the years ended December 31, 2004 through 2006 based on the outcome of the tax audit.

Net operating loss carryforwards and credit carryforwards reflected above are likely to be limited due to ownership changes as provided in the Internal Revenue Code and similar state provisions. The Company has not provided for U.S. federal income taxes on all of the non-U.S. subsidiaries' undistributed earnings as of December 31, 2006, because such earnings are intended to be indefinitely reinvested. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to applicable U.S. federal and state income taxes.

In connection with the Company's adoption of SFAS No. 123R, the Company uses the 'with-and-without' approach described in EITF Topic No. D-32, "*Intraperiod Tax Allocation of the Tax Effect of Pretax Income*

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BIGBAND NETWORKS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

from Continuing Operations." to determine the recognition and measurement of excess tax benefits. Accordingly, the Company has elected to recognize excess income tax benefits from stock option exercises in additional paid in capital only if an incremental income tax benefit would be realized after considering all other tax attributes presently available to the Company. In addition, consistent with the requirements described in Footnote 82 of SFAS No. 123R, because of net operating loss carryforwards, the Company has not recognized deferred tax assets for the excess income tax benefits from stock option exercises. The Company similarly has not recognized excess tax benefits as deferred tax assets for options accounted for under APB 25. Therefore, no such amounts are included in the components of deferred tax assets or as part of the amounts shown above as net operating loss carryforwards.

12. 401(k) Savings and Retirement Plan

The Company sponsors a 401(k) Savings and Retirement Plan (Plan) for all employees who meet certain eligibility requirements. Participants may contribute, on a pre-tax basis, between 1 percent and 90 percent of their annual compensation, but not to exceed a maximum contribution amount pursuant to Section 401(k) of the Internal Revenue Code. The Company is not required to contribute, nor has it contributed, to the Plan for any of the periods presented.

13. Subsequent Events

Reverse Stock Split

In February 2007, the Board of Directors approved a reverse stock split of the Company's outstanding shares of common stock and preferred stock and on February 15, 2007, subsequent to stockholder approval, the Company filed an amendment to its fourth amended and restated certificate of incorporation effecting a 1-for-4 reverse stock split of its class A and B common stock and all redeemable convertible preferred stock. All issued and outstanding common stock, preferred stock, warrants for common and preferred stock, and per share amounts, except the per share par value, contained in the financial statements have been retroactively adjusted to reflect this reverse stock split.

Exercise of Warrant

On February 16, 2007, a warrant to purchase 401,000 shares of class B common stock was exercised, with total proceeds of approximately $1.8 million paid to the Company.

2007 Equity Incentive Plan

On January 31, 2007, the Board of Directors approved the 2007 Equity Incentive Plan (2007 Plan). A total of 6,000,000 shares of common stock were reserved for future issuance under the 2007 Plan, which will become effective on the effective date of the initial public offering.

Employee Stock Purchase Plan (Unaudited)

On February 22, 2007, the Board of Directors approved the Employee Stock Purchase Plan (ESPP). A total of 1,000,000 shares of common stock were reserved for future issuance under the ESPP, which will become effective on the effective date of the initial public offering.

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
BigBand Networks, Inc.

We have audited the accompanying statements of operations, stockholder's deficit, and cash flows of ADC Broadband Access Systems, Inc. for the period from November 1, 2003 to June 29, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of ADC Broadband Access Systems, Inc. for the period from November 1, 2003 to June 29, 2004, in conformity with accounting principles generally accepted in the United States.

/s/ *Ernst & Young LLP*

Minneapolis, Minnesota
January 23, 2006

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ADC BROADBAND ACCESS SYSTEMS, INC.

STATEMENT OF OPERATIONS
(In thousands)

	Period From November 1, 2003 to June 29, 2004
Net sales	$ 13,114
Cost of sales	9,799
Gross profit	3,315
Operating expenses:	
Research and development	15,006
Selling and administration	11,671
Loss from operations	(23,362)
Other income	75
Net loss	$ (23,287)

See accompanying notes.

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ADC BROADBAND ACCESS SYSTEMS, INC.

STATEMENT OF STOCKHOLDER'S DEFICIT
(In thousands, except share data)

	Common Stock		Deferred Stock-Based Compensation	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
Balance, October 31, 2003	1,000	—	—	148,779	(285,071)	(613)	(136,905)
Net loss	—	—	—	—	(23,287)	—	(23,287)
Cumulative translation adjustment	—	—	—	—	—	401	401
Comprehensive loss							(22,886)
Balance, June 29, 2004	1,000	$ —	$ —	$ 148,779	$ (308,358)	$ (212)	$ (159,791)

See accompanying notes.

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ADC BROADBAND ACCESS SYSTEMS, INC.

STATEMENT OF CASH FLOWS
(In thousands)

	Period From November 1, 2003 to June 29, 2004
Operating activities	
Net loss	$ (23,287)
Noncash operating activities:	
Amortization of patent costs	111
Depreciation	1,718
Foreign exchange gains	(78)
Bad debt expense	159
Loss on write-down and disposals of property and equipment	1,008
Gain on sale of note receivable	(1,138)
Changes in operating assets and liabilities:	
Accounts receivable, net	1,546
Inventories, net	(4,938)
Prepaid expenses	(103)
Other receivables	(3,284)
Accounts payable	3,483
Accrued expenses and other current liabilities	873
Cash flows used in operating activities	(23,930)
Investing activities	
Restricted cash	106
Purchases of property and equipment	(2,736)
Sale of note receivable from customer	4,591
Payments made to obtain patents and trademarks	(147)
Cash flows provided by investing activities	1,814
Financing activities	
Due to parent	21,257
Cash flows provided by financing activities	21,257
Effect of exchange rates on cash and cash equivalents	401
Net change in cash and cash equivalents	(458)
Cash and cash equivalents, beginning of period	463
Cash and cash equivalents, end of period	$ 5

See accompanying notes.

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ADC BROADBAND ACCESS SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

June 29, 2004

1. Summary of Significant Accounting Policies

Business—ADC Broadband Access Systems, Inc. (the Company), a wholly owned subsidiary of ADC Telecommunications, Inc. (ADC), designs, manufactures, and sells solutions for broadband Internet protocol (IP) services. The Company's Cuda CMTS (cable modem termination system) products provide a versatile platform for the IP delivery of a wide range of highly differentiated video, voice, and data services to residential and commercial environments. The Company's FastFlow BPM (broadband provisioning manager) product automates configuration and activation of DOCSIS cable modems, multimedia terminal adaptors, and residential gateways for IP video, voice, and data services.

The Company was acquired by BigBand Networks, Inc. on June 29, 2004.

ADC provided financial and administrative support to the Company. The Company's results of operations may have been significantly different if it had been required to obtain financing from third-party sources or if it had been responsible for providing itself with the administrative resources provided by ADC. Refer to Note 5 for additional information about the Company's relationship with ADC.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates are used in determining such items as recognition of revenue, depreciation and amortization lives and provisions for returns and allowances, inventory write-downs, and warranty claims. Actual results could differ from these estimates.

Fair Value of Financial Instruments—The carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, and accounts payable approximate their fair value due to the short-term maturity of such instruments.

Cash and Cash Equivalents—The Company considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents. Cash collected on company sales was remitted to ADC. ADC managed the Company's cash and provided working capital as needed. Refer to Note 5 for more information about transactions with ADC.

Concentrations of Credit Risk—Financial instruments that subject the Company to potential concentrations of credit risk include cash and cash equivalents, restricted cash, and accounts receivable.

Cash and cash equivalents are maintained at banks in the United States and may exceed insured limits. The Company has not experienced losses on its cash and cash equivalents or restricted cash.

The Company's accounts receivable are derived mainly from sales to cable operators located in the United States. The Company performs ongoing credit evaluations of its customers and requires letters of credit or advance payments, if deemed necessary.

Inventories—Inventories include material, labor, and overhead and are stated at the lower of first-in, first-out cost or market. In assessing the ultimate realization of inventories, the Company is required to make judgments as to future demand requirements compared to current or committed inventory levels. The Company's reserve requirements generally increase as its projected demand requirements decrease due to market conditions, technological and product life cycle changes.

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ADC BROADBAND ACCESS SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

June 29, 2004

Property and Equipment—Property and equipment are recorded at cost and depreciated using the straight-line method over estimated useful lives of three to ten years or, in the case of leasehold improvements, over the term of the lease, if shorter.

Impairment of Long-Lived Assets—Prior to fiscal 2003, the Company evaluated property and equipment and identifiable intangibles for potential impairment in compliance with Statement of Financial Accounting Standards (SFAS) No. 121, "*Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of.*" In fiscal 2003, the Company adopted SFAS No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets.*" The Company records impairment losses on long-lived assets used in operations when events and circumstances indicate the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. The impairment loss is measured by comparing the fair value of the asset to its carrying amount.

Patents and Trademarks—Costs incurred to obtain patents and trademarks are capitalized and amortized over their useful lives of seven years using the straight-line method.

Anticipated future amortization expense for the years ending October 31 is as follows (in thousands):

2004	$ 59
2005	178
2006	178
2007	168
2008 and thereafter	251
	$834

Revenue Recognition—The Company recognizes revenue, net of discounts, when persuasive evidence of a final agreement exists, delivery has occurred, the selling price is fixed or determinable, and collection is reasonably assured. In instances where final acceptance of the product, system, or solution is specified by the customer, revenue is deferred until all acceptance criteria have been met. The Company also recognizes revenue for arrangements with multiple deliverables when the delivered items have value on a stand-alone basis, there is objective and reliable evidence of the fair value of the undelivered items, and there is no general right of return relative to the delivered items.

Technical support services revenue is deferred and recognized ratably over the period during which the services are to be performed, which is typically from one to three years.

Allowance for Uncollectible Accounts—The Company estimates its ability to collect trade accounts receivable. A considerable amount of judgment is required in assessing the realization of these accounts, including the current creditworthiness of each customer and the related aging of the past-due balances. In order to assess its ability to collect these accounts, the Company performs ongoing credit evaluations of its customers' financial condition and makes adjustments to its allowance for uncollectible accounts accordingly.

Warranty—The Company accrues for the estimated cost of product warranties at the time revenue is recognized. The Company estimates the costs of its warranty obligations based on its warranty policy, its historical experience of known product failure rates and related costs incurred in correcting product failures.

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ADC BROADBAND ACCESS SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

June 29, 2004

The Company's warranty accrual activity was as follows (in thousands):

	Period From November 1, 2003 to June 29, 2004
Balance, beginning of period	$ 252
Provisions	208
Utilizations	(26)
Balance, ending of period	$ 434

Research and Development Costs—The Company expenses all research and development costs in the period incurred.

Current and Deferred Income Taxes—The Company utilizes the liability method of accounting for income taxes. Deferred tax liabilities or assets are recognized for the expected future tax consequences of temporary differences between the book and tax bases of assets and liabilities. The Company regularly assesses the likelihood that its deferred tax assets will be recovered from future taxable income and the Company records a valuation allowance to reduce its deferred tax assets to the amounts it believes to be realizable. The Company considers projected future taxable income and ongoing tax planning strategies in assessing the amount of the valuation allowance. If the Company determines it will not realize all or part of its deferred tax assets, an adjustment to the deferred tax asset will be charged to earnings in the period such determination is made.

Foreign Currency Translation—The Company converts assets and liabilities of foreign operations to their U.S. dollar equivalents at rates in effect at the balance sheet dates and the Company records translation adjustments in stockholder's deficit. Income statements of foreign operations are translated from the operations' functional currency to U.S. dollar equivalents at the exchange rate in effect on the transaction dates. Foreign currency exchange transaction gains and losses are recorded in other income (expense).

Comprehensive Loss—Comprehensive loss includes net loss and foreign currency translation adjustments. Comprehensive loss is presented in the statements of stockholder's deficit.

Software Development Costs—Software development costs are capitalized beginning when technological feasibility has been established and ending when a product is available to customers. To date, the period between achieving technological feasibility and the period when the software is made available to customers has been relatively short, and software development costs for capitalization have been insignificant. As such, all costs qualifying for capitalization have been insignificant. As such, all software development costs are included in research and development expense.

2. Income Taxes

The Company was part of a group that filed a consolidated federal income tax return. For financial reporting purposes, a separate income tax provision has been created to show the amount that would have been recorded in the financial statements if the Company filed a separate tax return.

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ADC BROADBAND ACCESS SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

June 29, 2004

The components of income taxes were as follows (in thousands):

	Period From November 1, 2003 to June 29, 2004
Current taxes:	
Federal	$ —
State	—
	—
Deferred taxes:	
Federal	—
State	—
	—
Total income taxes	$ —

The effective tax rate differed from the federal statutory rate as follows:

	Period From November 1, 2003 to June 29, 2004
Federal statutory rate	(35.0)%
Meals and entertainment	0.1
Federal research and development credit	(6.5)
State taxes, net	(7.9)
Valuation allowance	49.3
	— %

The Company concluded that a full valuation allowance against its net deferred tax assets was appropriate. A deferred tax asset represents future tax benefits to be received when certain expenses and losses previously recognized in the income statement become deductible under applicable income tax laws. Thus, realization of a deferred tax asset is dependent on future taxable income against which these deductions can be applied. SFAS No. 109, *"Accounting for Income Taxes"*, requires that a valuation allowance be established when it is more likely than not that all or a portion of deferred tax assets will not be realized. A review of all available positive and negative evidence was performed, including the Company's performance, the market environment in which the Company operates, the utilization of past tax credits, length of carryback and carryforward periods, and existing contracts or sales backlog that will result in future profits. As a result of the Company's cumulative losses and the full utilization of its loss carryback potential, the Company concluded that a full valuation allowance should be recorded.

Federal and state net operating loss carryforwards, available to offset future income for tax purposes, were approximately $244.4 million and $231.9 million, respectively, at June 29, 2004. The federal net operating loss carryforwards expire between fiscal 2015 and fiscal 2024, and the state operating loss carryforwards expire between fiscal 2005 and fiscal 2009. Federal and state credit carryforwards were approximately $9.8 million and $5.9 million at June 29, 2004, respectively. The federal credits expire between fiscal 2013 and fiscal 2024, and

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ADC BROADBAND ACCESS SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

June 29, 2004

the state credits expire between fiscal 2005 and fiscal 2019. The net operating losses and credit carryforwards are subject to the limitations provided by Internal Revenue Code sections 382 and 383.

During the period ended June 29, 2004, the Company's valuation allowance increased from $108.6 million to $120.4 million.

3. Commitments and Contingencies

Letters of Credit—As of June 29, 2004, the Company had one outstanding letter of credit guaranteeing payment of certain rental obligations. That letter of credit was collateralized with cash in the amount of $105,000.

Operating Leases—Portions of the Company's operations were conducted using leased facilities. These leases are noncancelable and renewable, with expiration dates in 2007 and 2008. Rent expense included in the accompanying statement of operations was $0.9 million for the period from November 1, 2003 to June 29, 2004.

The following is a schedule of future minimum lease payments required under facilities operating leases at June 29, 2004, including a facility the Company ceased using in 2001, for fiscal years ending October 31 (in thousands):

2004	$ 809
2005	2,524
2006	2,620
2007	1,734
2008	734
	$8,421

Legal Contingencies—The Company is a party to various lawsuits, proceedings, and claims arising in the ordinary course of business or otherwise. The Company does not believe these matters will have a material adverse impact on the consolidated financial statements.

4. Restructuring Accrual

The Company's lease obligation for a facility it ceased using in 2001 was as follows (in thousands):

	Period From November 1, 2003 to June 29, 2004
Balance, beginning of period	$ 5,031
Payments	(691)
Balance, ending of period	$ 4,340

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ADC BROADBAND ACCESS SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS—(Continued)

June 29, 2004

5. Related-Party Transactions

Corporate Allocations—The Company was charged with corporate overhead costs by ADC as follows (in thousands):

	Period From November 1, 2003 to June 29, 2004
Research and development	$ 160
Selling and administration	6,002
Total	$ 6,162

Due to Parent—ADC provided financing to the Company during 2004 to fund the Company's operating losses and allow it to meet its obligations as they come due. The Company did not repay any amounts due to ADC during the period ended June 29, 2004. ADC did not charge the Company interest expense on the outstanding amount of the payable because it was not ADC's practice to do so, and ADC did not anticipate settlement of the payable. Had the Company operated as a stand-alone business, it may not have been able to obtain similar levels of financing with such favorable terms.

In connection with the sale of the Company to BBN, all debts due to ADC and its subsidiaries were extinguished through a contribution of capital to the Company.

6. Major Customers

The Company had sales to customers which exceeded 10% of net sales, as follows:

	Period From November 1, 2003 to June 29, 2004
A	29.1%
B	19.9
C	13.7
D	11.4
	74.1%

7. Retirement Savings Plans

The Company sponsors defined contribution plans for its employees. The Company's contribution to these plans was $286,000 during the period ended June 29, 2004, respectively.

8. Customer Financing

The Company was party to a consortium of vendors who sold product to a customer. At October 31, 2002, the Company deferred $4,500,000 of revenues in connection with product shipped to the customer that had not been accepted. The customer accepted the product in 2003, and the Company recognized all previously deferred revenues and related costs.

The Company also participated in a credit facility provided to this same customer by making a contribution to the facility. The Company sold its participation interest in the facility to a third party in January 2004 for $4,500,000 and recorded a gain of $1,100,000.

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